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Wales
Will more self-rule help economic regeneration?
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EU to warn US and China over 'fixing' any WTO deal

By Guy de Jonquières in London and James Kynge in Beijing

The European Union will today warn the US and China that it will oppose any deal between them that offers Beijing membership of the World Trade Organisation in exchange for special favours to the US.

The warning reflects concern in Brussels that US and Chinese efforts to achieve a breakthrough on WTO accession in the next few weeks could produce a bilateral agreement that discriminated against the EU and other WTO members.

Sir Leon Brittan, EU trade commissioner, will set out Brussels' position in a statement timed to coincide with talks between Charlene Barshefsky, US trade representative, and senior officials in Beijing.

The talks are the climax of a week of intense US diplomatic activity aimed at finding the basis for a deal on China's WTO entry that could form the centrepiece of the planned US visit by Zhu Rongji, the Chinese premier, next month.

The EU's misgivings have surfaced at a moment when its trade relations with the US are troubled by disputes, about issues including banana imports and hormone-treated beef.

Sir Leon will welcome US attempts to speed China's WTO admission and emphasise Brussels' determination to continue working closely with Washington on the issue.

But he will insist that the terms of China's membership must be agreed by all WTO members, not just the US.

"No bilateral agreement between China and a third country can be imposed on other members of the WTO as a basis for a final accession deal," he will say.

He will also say that US assent for China's admission must not be procured through preferential trade concessions.

"The central purpose of the WTO accession talks is to remove trade discrimination, not to introduce new preferential distortions."

Although Washington and Brussels broadly agree on the terms for China's membership, the EU fears the US is so eager for a deal that it might soften its position in return for offers of privileged access to China's market, notably for financial and other services.

Sir Leon is expected to voice his concerns directly to Ms Barshefsky soon, and on a hastily arranged visit to Beijing late next month, after Mr Zhu returns from the US. The prospects for Ms Barshefsky's talks in Beijing were thrown into some uncertainty yesterday, when she contradicted an official statement that she had a new proposal for China on WTO membership.

Trade diplomats said the apparent discrepancy might reflect differing US negotiating strategies and priorities.

Unconstructive, less engaged, Page 11

COMMITTEE PROBING ALLEGED BRUSSELS MISMANAGEMENT TO REPORT ON MARCH 15

Santer warns that commissioners may have to step down

By Neil Buckley in Brussels

Any European commissioner found guilty of wrongdoing by the current inquiry into fraud and mismanagement should resign, Jacques Santer, the European Commission president, warned yesterday.

His remarks are a departure from the principle of "collegiate responsibility" at the European Union's executive which he has until now implied would protect individual commissioners from being dismissed.

The change in stance leaves Edith Cresson, education commissioner and former French prime minister, looking increasingly isolated. Mrs Cresson has been heavily targeted by the European Parliament – leading the fight against alleged fraud in the Commission – over an EU research contract awarded to a dentist acquaintance.

She has also been pressed to take responsibility for mismanagement by external contractors of an €620m EU youth training programme. Mrs Cresson vigorously denies any wrongdoing.

A five-member "committee of experts" investigating all allegations against the Commission will report on March 15. The committee was set up under a compromise between Mr Santer and the parliament in January to avert a censure motion that would have sacked all 20 commissioners.

"If this committee arrived at conclusions where the position of certain members of the Commission were called into question, I think [commissioners] should behave as politicians," he said.

His comments came as some MEPs said a code of conduct agreed by the Commission yesterday did not fully deliver on Mr Santer's promises to clean up the executive's image.

Pauline Green, leader of parliament's biggest group, the Socialists, expressed disappointment that commissioners had only reached "political agreement" on the code, putting off formal adoption until next week.

She called for "firm and resolute action to dispel the clouds" over the executive.

James Elles, British Conservative MEP responsible for a critical report on the Commission's handling of the EU's 1996 finances, said it had "chickened out" of the most important reforms.

The code requires commissioners to declare their spouses' jobs and families' financial interests, on top of their own. They are also banned from holding public office outside the Commission, or accepting gifts worth more than €150.

But the code does not lay down new rules on the composition of commissioners' "cabinets" of advisers – their personal power bases in the Brussels executive.

Jacques Santer at a press conference yesterday AP

Observer, Page 11
Editorial Comment, Page 11

Japan takes radical step to head off economic downturn

By Gillian Tett in Tokyo

The Bank of Japan pushed effective short-term interest rates down to zero yesterday in an unprecedented new attempt to stave off an economic downturn and deflationary spiral in Japan.

The overnight call rate – or the market short-term rate – dropped to 0.02 per cent during trading, after the bank flooded the money markets with Y1,800bn ($15bn) of surplus liquidity.

The 0.02 per cent rate means money is being provided for free, as brokerage commission in the call money market is currently 0.02 per cent. The bank said the average rate for the day's trading was 0.04 per cent, down from 0.07 per cent on Tuesday.

This is probably the first time a major central bank has pushed nominal overnight rates to zero in a move to reflate its economy. Switzerland briefly introduced what were in effect negative interest rates in the 1970s, but the purpose was to deter inflows of flight capital.

The measures boosted long-term bond prices as investors removed money from the call market and sought out yields. However, the yen also fell to Y121 against the dollar, as some economists concluded the bank was now poised to use even more radical methods.

Kazuo Ueda, a member of the bank's policy board, denied it was now seeking negative interest rates. However, he said the bank would introduce "further credit-easing steps" if they were needed to reflate the economy.

The bank has so far rejected suggestions that it should directly underwrite or purchase more Japanese government bonds to create inflation. It has also opposed suggestions that it should pump enough liquidity into the markets to achieve a specific target for monetary growth, in a policy known as "quantitative easing". Instead, it has sought to guide overnight rates into a band.

However, Mr Ueda said the bank was now seeking a "middle way" between targeting interest rates and quantitative easing.

Personal view, Page 10
Editorial Comment, Page 11

WORLD NEWS

Finland looks to new deal with Moscow

Finland plans to use its European Union presidency to implement a new co-operation pact between the EU and Russia. The pact covers issues ranging from road links to economic partnership projects. Page 12

China's budget deficit grows
Chinese prime minister Zhu Rongji is set to announce the biggest deficit for two decades. The 56 per cent rise in the deficit shows the strains caused by government spending to lift the economy. **Asia-Pacific, Page 7**

Killer rebels 'will be pursued'
Ugandan president Yoweri Museveni vowed to kill or capture Rwandan rebels who murdered eight foreign tourists. **International, Page 5**

Israeli PM spurns minister's call
Israeli prime minister Benjamin Netanyahu rejected a call by foreign minister Ariel Sharon to form an emergency government that would pull Israeli troops out of Lebanon. **International, Page 5**

Indonesian troops sent to island
Indonesia's military has sent 3,000 troops to the troubled island of Ambon with orders to shoot rioters on sight. **Calls for 'Jihad', Page 7**

Japan's step towards birth pill
A Japanese health ministry committee has accepted the low-dose contraceptive pill is safe. A ministry council is expected to recommend the pill for approval in June. **Asia-Pacific, Page 7**

Schröder tries to calm tax fears
German chancellor Gerhard Schröder tried to pacify insurers about his government's tax plans, due for Bundestag approval today. **Europe, Page 2**

Ukraine votes to join CIS group
Ukraine lawmakers voted to join the Commonwealth of Independent States' inter-parliamentary assembly, a move many see as a step towards recreating the Soviet Union. **Europe, Page 3**

Date set for South Africa poll
South Africa's second democratic election will be held on June 2, President Nelson Mandela said. **International, Page 5**

Famine 'may have killed over 1m'
Malnutrition and related diseases may have killed up to 800,000 a year in famine-stricken North Korea over the last two or three years, a South Korean think tank said.

UK pins hopes on Clinton
The UK government hopes president Bill Clinton can revive the stalled Northern Ireland peace process when the region's political leaders visit Washington this month. **UK, Page 8**

1960s pop icon dies
British pop star Dusty Springfield died of breast cancer aged 59. Dusty, whose hits included I Only Want To Be With You and You Don't Have To Say You Love Me, had been due to be inducted into New York's Rock and Roll Hall of Fame. **Obituary, Page 9**

Some copies of the Wales survey, published with today's edition, are incorrectly dated. We apologise for the error.

BUSINESS NEWS

Telecom Italia savers may have to accept non-voting shares

Nearly a third of Telecom Italia investors may be forced to accept non-voting shares in an Olivetti subsidiary if Olivetti's €53bn bid for the telecommunications giant succeeds, a Financial Times analysis of the Olivetti bid shows. **Companies and markets, Page 13; Lex, Page 12; Chinese boxes, Page 14**

GKN, UK engineering group, expects to unveil a merger of its helicopter interests with Agusta of Italy. **Companies and markets, Page 13; Lex, Page 12**

Kellogg launched a sweep of senior management positions, and new appointments, in an effort to get its ailing cereals business back on track. **Companies and markets, Page 13**

Civil aircraft deliveries will begin to fall next year and Boeing of the US will suffer more than Airbus Industrie, its European rival, credit rating agency Moody's Investors Services said. **World trade news, Page 6**

Canal Plus and British Sky Broadcasting, pay television companies, seemed close to breaking off merger talks after the French company imposed a stringent set of conditions for further negotiations. **Companies and markets, Page 13**

Peugeot-Citroën, French carmaker, acknowledged it was looking at mergers or acquisitions as it reported lower than expected 1998 profits. **European companies, Page 15**

Tieto, Finnish provider of information technology services, is to take over its Swedish rival Enator in a €920m ($1bn) deal. **Companies and markets, Page 13**

Hino Motors, Japanese truckmaker in which Toyota has a 20 per cent stake, is to cut nearly 10 per cent of its white-collar workforce. **Asia-Pacific companies, Page 20**

Ayala Corp, blue-chip Philippine conglomerate, plans to issue a new class of shares with voting rights less than existing ordinary stock. **Asia-Pacific companies, Page 20**

Robert Fleming, UK-based investment banking and brokerage company, merged its Egyptian operation with the Cairo-based CIIC in a move aimed at making Cairo its regional financial centre. **International companies, Page 16**

MCI WorldCom, US telecommunications group, and Canadian carrier Bell Canada, have formed an alliance to provide seamless North American services. **US and Canadian companies, Page 18**

Kmart, US discount stores group, reported fourth-quarter earnings of $353m, up from $186m, following a redesign of its stores. **US companies, Page 18**

Euro Prices
A comprehensive statistical guide to the euro currency zone, covering foreign exchange, bond and equity markets. Page 23

Goldman set to float within three months

By Tracy Corrigan in New York

Goldman Sachs, Wall Street's largest remaining partnership, plans to take the firm public in the next three months – its second attempt at an initial public offering in a year.

The firm's five-strong management committee will present the plan – to float 10-15 per cent of the firm – to its 221 partners next Monday.

Market turmoil surrounding Russia's debt default and the near-collapse of hedge fund Long-Term Capital Management forced Goldman to postpone its planned IPO last September.

The firm is expected to report strong first-quarter earnings later this month, following a poor fourth quarter. But stock market valuations of investment banks are still lower than they were at the market's peak last year.

The firm is likely to be valued at $20bn-$23bn, substantially less than the $30bn valuation expected last year. This would mean 10-15 per cent of the firm is likely to be worth $2bn-$3.5bn.

"Ideally, I would want more than one quarter to demonstrate a recovery," said Raphael Soifer, financial services analyst at Brown Brothers Harriman. "But balanced against that is the fact that the market may not be all that good for very long." The vote by Goldman partners is viewed as a formality and will be followed by a filing to the Securities and Exchange Commission within days. Executives are believed to be keen to move forward rapidly with the IPO to end a period of uncertainty at the firm and take advantage of stronger market conditions.

Goldman is due to report its first-quarter earnings on March 15. It expects to hold roadshows in late April and launch the IPO in May or early June.

Jon Corzine, Goldman's co-chairman, who stood down as co-chief executive officer in January, is expected to leave the firm shortly after the IPO. Mr Corzine is believed to have lost a power struggle with Hank Paulson, co-chairman and now sole chief executive officer, and co-chief operating officers, John Thornton and John Thain.

People close to the firm said the priorities for the next 12 months were the successful conclusion of the IPO and top-quality execution of its business.

Although one reason for the IPO is to give the firm a chance to make acquisitions, no deals are likely in the short term.

Lex, Page 12; End to testing time sought, Page 18

WORLD MARKETS

STOCK MARKET INDICES		
New York: lunchtime		
Dow Jones Ind Av	9,308.75	(+11.14)
NASDAQ Composite	2,249.84	(-9.19)
Europe and Far East		
CAC40	4,004.16	(-44.47)
DAX	4,697.87	(-106.35)
FTSE 100	6,048.3	(-13)
FTSE Eurotop 300	1,201.29	(-7.96)
Nikkei	14,170.36	(+249.3)
US LUNCHTIME RATES		
Federal Funds	4.75%	
3-mth Treas Bills: Yld	4.67%	
Long Bond	98 13/16	
Yield	5.68%	
OTHER RATES		
UK: 3-mo Interbank	5 5/16%	(same)
UK: 10 yr Gilt	108.8329	(108.7529)
Euro Euribor	3.112%	(3.115%)
Germany: 10 yr Bund	97.01	(96.95)
Japan: 10 yr JGB	100.983	(100.974)
NORTH SEA OIL (Argus)		
Brent Dated	$10.76	(10.46)

GOLD		
New York: Comex		
(Mar)	$287.2	(286.9)
London:		
	$287.05	(288.15)
DOLLAR		
New York: lunchtime		
£	1.61195	
€	0.9184	
SFr	1.4619	
Y	121.75	
London:		
£	1.6177	(1.6158)
€	0.9160	(0.9151)
SFr	1.4553	(1.4578)
Y	121.325	(120.285)
Tokyo close:		Y 121.165
EURO (London)		
$	1.0918	(1.0926)
£	0.6748	(0.6762)
Y	132.457	(131.442)
SFr	1.5888	(1.5930)

Euro-zone target price €2.15. Prices in local currency as shown

Bahrain	Din1.300	Iceland	IKr285	Oman	OR1.75
Belgium	BFr90(€2.23)	Italy	L3900(€2.01)	Poland	Zl 10.00
CIS	US$4.00	Jordan	JD1.75	Portugal	Esc320(€1.60)
Croatia	Kn19.00	Kuwait	KWD0.750	Qatar	QR13.00
Denmark	DKr16.00	Latvia	Ls1.65	South Africa	R16
Estonia	EKr34.00	Lithuania	Lit21.00	Spain	Pta325(€1.95)
Finland	Fmk13.00(€2.19)	Lebanon	LBP3.500	Sweden	SKr20.00
France	FFr14.00(€2.13)	Luxembourg	LFr90(€2.23)	Switzerland	SFr3.50
Gibraltar	£0.85	Morocco	Dh18.00	Syria	S£80.00
Greece	Dr500	Netherlands	Fl 4.80(€2.18)	Tunisia	Din2.000
Hungary	Ft380	Norway	NKr19.00	UAE	Dh13.00

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CONTENTS

Schröder seeks to calm insurers over tax

By Ralph Atkins in Bonn

Gerhard Schröder, German chancellor, sought yesterday to calm the fierce reaction from the country's insurance industry to his centre-left government's tax reform plans, but offered no immediate concessions.

At a meeting with insurers, including Henning Schulte-Noelle, chairman of Allianz, Europe's biggest insurer, Mr Schröder refused to agree to changes in tax legislation due to be approved today by the Bundestag, or lower house of parliament. Instead he promised an investigation into the actual additional burden faced by the insurance sector at the end of the year and only then to consider possible changes.

Afterwards, the German insurance association said it took comfort from the chancellor's assurances that the sector should not have to pay more than an extra DM8.75bn (€4.47bn, $4.91bn) in coming years – the finance ministry's estimate of the additional burden faced by insurers. But even that was an "immense" burden. The insurance industry had put its likely extra tax bill at about DM14bn.

Insurers will be hit by new rules affecting reserves set aside for insurance claims and the discounting of those reserves. Allianz has threatened to move activities overseas as a consequence.

Mr Schröder's meeting was part of efforts to head off the sharp criticism from across business of the tax reforms drawn up by Oskar Lafontaine, finance minister. These would bring Germany into line with other countries by broadening the tax base, but include only modest cuts in the main tax rates affecting businesses. The energy sector is also particularly affected.

Yesterday's meeting came as the Bonn cabinet agreed a series of plans to improve the government's image after an exceptionally bumpy first few months in office, including embarrassing policy reversals on plans to overhaul nationality laws and to withdraw from nuclear power. In future, government departments would outline their plans to the weekly cabinet and agree communication strategies with the federal press department. Leaders of the Social Democratic and Green parliamentary parties would have a "standing invitation" to attend cabinet meetings.

Meanwhile, Mr Lafontaine sought yesterday to use a Bundestag debate approving a separate "ecological" tax bill to emphasise the new government's willingness to embrace structural reform.

The finance minister described the measures as a "historic step of modernisation". Funds raised from higher energy costs would be used to cut statutory social security contributions. German labour costs would be lowered and the environment protected, Mr Lafontaine said. This year, pension contributions will fall 0.8 percentage points to 19.5 per cent.

He said a "majority" of European Union states agreed ecological tax reform was a "modernising project".

ECB set to decide whether to cut rates

By Tony Barber in Frankfurt

The European Central Bank must decide today whether weak economic activity and low inflation in the euro-zone justify a cut in interest rates or whether high wage settlements and the euro's fall mean rates should stay at 3 per cent.

Ahead of today's meeting Wim Duisenberg, the ECB's president, and others on the 17-member governing council have abandoned the often enigmatic language of central bankers in favour of clear public statements to the effect that they will not cut rates.

But financial markets recall that Europe's central bankers wrong-footed them in early December when, in the last change of monetary policy before the euro's launch, the ECB co-ordinated a rate cut across the euro-zone from 3.3 to 3 per cent.

Oskar Lafontaine, Germany's Social Democrat finance minister, has repeatedly demanded a rate cut to boost economic growth and reduce unemployment. He has warned the ECB that, if it fails to take action, deflation will grip the euro-zone economy.

But Christian Noyer, the ECB's French vice-president, slapped down that view when talking to reporters on Monday in Singapore. "Germany is not on the edge of deflation, and anyway we do not design monetary policy just for one country," he said.

Economists say the ECB's task is complicated by the fact that the euro-zone's 11 national economies are not moving in the same direction. Germany, which accounts for more than one-third of euro-zone output, suffered a 0.4 per cent contraction in gross domestic product in the fourth quarter of 1998, but France and Spain recorded 0.7 per cent growth and the Netherlands 1.2 per cent.

"The real economy in euroland is being pulled in different directions," said a report by the investment bank Goldman Sachs. "This makes an adequate response by a common monetary policy difficult."

The ECB may also feel that the euro's 7 per cent fall against the dollar since January weakens the case for a rate cut, since it helps European exporters by making their products cheaper abroad. In addition, Mr Duisenberg has indicated that he regards recent German wage settlements as too high to justify a rate cut.

UK offers Russia nuclear waste aid

By David Buchan in Murmansk

Robin Cook, the UK foreign secretary, yesterday visited the headquarters of Russia's collapsing Northern Fleet of nuclear submarines, once the world's largest, and said Britain would contribute £3m ($4.8m) towards containing radioactive waste from decommissioned submarines.

Most of the UK money will go to providing casks for waste to be taken out of the Lepse ship. Built in 1936, this vessel sits in Murmansk harbour where it has been used for the past 20 years to store fuel rods that were damaged when hammered into storage tanks. The UK money will help cut the rods out of the Lepse and provide safe casks to house them before eventual reprocessing or disposal.

The move marks an attempt by Britain to shift the spotlight of western concern, up to now focused on the issue of the safety of Soviet-era nuclear reactors in the wake of the 1986 Chernobyl accident in the Ukraine, to the hazards created by spent nuclear fuel from nearly 100 decommissioned Russian submarines and ice-breakers, in the Murmansk region and the Kola Peninsula stretching towards Norway.

Under financial and disarmament pressure, Russia has been laying up its nuclear submarines faster than it can safely store, let alone reprocess, their nuclear fuel and decontaminate their reactors. Environmentalists say that by next year they expect the fleet to have accumulated 320 discarded nuclear reactor cores – about 20% of the world's total – as well as 75,000 spent fuel rods.

"We hope that with this new money we can at least help the storage problem," said Mr Cook.

His announcement will boost the work that British Nuclear Fuels Ltd (BNFL) has done in designing an interim fuel storage system funded by Norway, Sweden and the European Union. BNFL has also joined Norway in trying to help the Russian navy tackle radioactive leaks at the Andreyev Bay base on the Kola peninsula. Norway and the EU have provided £60m ($96m).

Russia has taken 130 nuclear submarines out of service, 88 of them belonging to the Northern Fleet, which like other parts of the Russian armed services is chronicly short of money.

Mr Cook said his visit to Murmansk was designed to signal western determination to help, and also to press the Russians to be more co-operative. Western companies have complained that the Russians have charged them duty on imported equipment, been uncooperative in waiving accident liability and, in certain cases, blocked access to sensitive sites.

The UK foreign secretary said in Moscow he would raise the case of Alexander Nikitin, a former navy captain, who still faces possible prosecution on charges of treason for passing on details of radioactive contamination in Murmansk to Bellona, a Norwegian environmental group for which he worked.

Berezovsky firestorm explodes like soggy squib

But some of his attacks seem to be finding their mark, John Thornhill and Andrew Jack write

Boris Berezovsky's business interests

● Logovaz, a car distribution business connected with Avtovaz, Russia's largest car maker. Last month the chief prosecutor opened a criminal case against Avtovaz.

● Sibneft, one of Russia's biggest oil companies. Hooded paramilitaries raided the company's headquarters last month searching for information about Atoll, a security company, alleged to have been conducting illegal surveillance of President Boris Yeltsin's family.

● Aeroflot, Russia's international airline. Directors allied to Mr Berezovsky were squeezed out of the company last month and investigations were launched into Aeroflot's offshore subsidiaries.

● ORT, the main television channel in which Logovaz has a shareholding. Last December the company was threatened with bankruptcy prompting the president to provide new credits and install fresh management.

● Mr Berezovsky does not deny his links with these companies but says he transferred his shares to independent managers when he entered government service and has no involvement in the day-to-day running of these businesses.

Boris Berezovsky, the business tycoon and secretary of the Commonwealth of Independent States, aired a series of seemingly startling allegations at a press conference in Moscow this week.

Mr Berezovsky alleged that officers from the FSB, the domestic heir to the KGB, had first tried to extort money from him and then plotted to kill him.

He then claimed that two of Mr Yeltsin's closest former aides had been responsible for the murder of Vladislav Listyev, the popular television presenter and businessman, who was gunned down in 1995. And Mr Berezovsky echoed accusations – first published in the Nezavisimaya newspaper which he controls – of ministerial corruption in the government headed by Yevgeny Primakov. In most countries, such accusations would have sparked a political firestorm. In Russia they exploded like a soggy squib.

Indeed, the next day Russian newspapers unleashed their own deluge of kompromat (compromising materials) against Mr Berezovsky. Moskovsky Komsomolets, which has been the cheerleader of the anti-Berezovsky opposition, even published transcripts of what purported to be telephone conversations between Mr Berezovsky and Mr Yeltsin's daughter, Tatyana Dyachenko, reflecting badly on both of them.

The chief prosecutor's office has also been busy investigating Mr Berezovsky's business interests.

Last month, masked paramilitary officers raided the headquarters of the Sibneft oil company, which was once linked to Mr Berezovsky. A criminal case has been opened against Avtovaz, Russia's largest car maker, where Mr Berezovsky used to work.

The government has also been trying to sideline Mr Berezovsky at ORT, the main television channel, which was once dependent on his financial support and has at times served as his public mouthpiece.

The lower house of parliament, the Duma, has also joined the fray, unanimously endorsing a motion calling on the 12 leaders of the CIS countries to sack Mr Berezovsky as secretary of the international organisation. Such a move would strip Mr Berezovsky of his diplomatic immunity and leave him vulnerable to prosecution.

Many observers view these public skirmishes as part of a ferocious power struggle between Mr Primakov and Mr Berezovsky. The two men have long been personally antagonistic to each other; as foreign minister, Mr Primakov constantly railed against Mr Berezovsky's interference in CIS affairs.

The prime minister's supporters argue that he is battling to restore the formal authority of the state and eradicate the informal influence of the "oligarchs", who so insinuated their way into previous Russian governments. They say his war against corruption should help stem massive flows of flight capital – which have so undermined the economy – and restore the confidence of foreign creditors.

"I think that Berezovsky has been the victim of his own success," says an official close to Mr Primakov. "He is accustomed to winning his battles with the government and even changing prime ministers. But this time he is confronting a really heavyweight sparring partner. My advice to Berezovsky is to stop because you will lose anyway."

Mr Berezovsky certainly appears rattled by the public assaults against him. "I have been under close scrutiny of the law enforcement bodies for a long time," he said at his press conference. "But can you produce a single fact, a single law suit against me? Can you cite a single indictment?"

Mr Berezovsky, who is Jewish, says the attack on him reflects the resurgent power of Russia's Communist party, which is linked to anti-Semitic extremists and reactionary elements in the security services. He warns that the apparatus of Russia's totalitarian past is being revived, jeopardising the rights of every citizen.

Mr Primakov's supporters may believe the campaign against Mr Berezovsky is politically popular and will scare some of the other "oligarchs" into submission. But the attack on Mr Berezovsky carries its own risks: he is so closely associated with Mr Yeltsin's family the campaign could easily be seen as an assault on the presidency itself.

Furthermore, some of Mr Berezovsky's own blows appear to be finding their mark. Last week, Mr Yeltsin and Mr Primakov were reported to have exchanged heated words; soon afterwards the president returned to hospital with an aggravated stomach ulcer while the prime minister abruptly flew off on a 10-day holiday. Moscow's rumour mill has it that Mr Yeltsin was furious at the allegations of ministerial corruption aired in the Nezavisimaya newspaper and Mr Primakov's increasingly overt campaign to win the presidency.

How this latest political drama will play itself out is difficult to predict. Political feuds in Russia can dissipate as fast as they precipitate. Yesterday's enemies can often be transformed into tomorrow's friends. In 1993 Alexander Rutskoi, Mr Yeltsin's former vice president, was accused of treason for instigating an armed uprising. But he was quickly released from prison and was subsequently elected governor of Kursk.

As one government official remarks, it is often difficult to distinguish between criminals and victims in contemporary Russia. "I dream of the day when people are prosecuted in this country for law-and-order reasons rather than political motivations," he says.

Pricing differentials persist in euro-zone

By Richard Adams, Economics Staff

Consumers in the euro-zone may shop around for cheaper cars and stereos in other member countries but the biggest price differences in Europe may be on the table in front of them.

Staple consumer goods such as food and household medicines – rather than expensive items such as stereo systems and computers – are more likely to vary widely in price between euro-zone countries, according to a new report* by consultants KPMG.

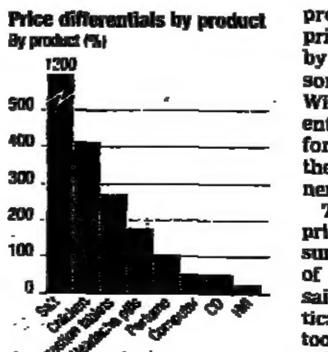
Cars, perhaps the most cited case of price differentials in Europe, were so much "better behaved" than retail items – with only a 10-20 per cent price variation between markets – that KPMG did not include them.

Across the board, price variations dwarfed any that could be explained by different sales taxes and duties between the 12 countries surveyed, which included the UK despite being outside the euro-zone.

"KPMG found that even large and commercially sophisticated companies are struggling with the new dimension of genuine European price management, the need to cross-reference national pricing characteristics and develop an integrated pricing strategy," the policy paper said.

Michael Littlechild, KPMG's senior partner in charge of Emu services in the UK, said he was surprised by the huge differences between EU countries, which showed that there were many opportunities for suppliers and purchasers to exploit price transparency.

Price differentials by product



However, the question of whether the transparency brought by the euro will in fact level out price differentials is highly complex.

KPMG warned that in markets such as household medicines, companies' future profits and ability to set prices could be undermined by the ease of price comparison afforded by the euro. Wide degrees of price differentiation and ease of entry for new competitors make these markets especially vulnerable.

The survey compared the price tags of 31 standard consumer goods on sale in each of the 12 countries. KPMG said it selected goods identical in size or capacity, and took prices from stores outside capital cities, without using panEuropean retail outlets.

Wide price differentials alone appear to be no guarantee that the age of the euro will trigger change.

The survey found the widest variation came in the price of humble table salt. In Portugal, the price of salt was 12 times more expensive than an equivalent amount sold in retail outlets in Italy.

According to the European Salt Producers Association, the Portuguese have one of highest intakes of salt in Europe, at 10.7 grams per day. But Portugal only produces 935,000 tonnes of crystallised salt, forcing it to import salt for domestic and other uses. Meanwhile, the Dutch eat only 8.2-8.8 grams each a day, but produce 5.3m tonnes.

For a low-cost, bulk product such as salt, transport costs will form a large proportion of the final price.

That could explain why Dutch shoppers pay only a third of the retail price in Portugal.

*KPMG Emu Unit: Pricing Policy White Paper. KPMG Marketing Department, 8 Salisbury Square, London, EC4Y 8BB, UK.

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NEWS DIGEST

NORWEGIAN ECONOMY

Bank makes unexpected interest rate cut

Norway yesterday cut its principal interest rates by 0.50 of a percentage point, the second rate cut this year after seven consecutive rate rises by the previous central bank governor.

From yesterday, the interest rates on deposit and overnight loans were cut to 7 per cent and 9 per cent respectively.

Svein Gjedrem, who took over as governor of the country's central bank in January, cited developments in money and foreign exchange markets and the prospect of reduced pressures in the economy as reasons for the unexpected cut. Economists had expected the bank to wait until Norway's current wage round, due to end in May, had made more progress before cutting rates.

The cut had relatively little effect on the krone, which remained unchanged at 8.65 against the euro, while three-month money market rates adjusted 25 basis points lower to 7 per cent.The decision to cut rates the first week into wage talks was seen as a response to signs from unions that wage inflation will not be more than 4.5 per cent this year, falling below the 6 per cent expected by the bank. **Valeria Sköld, Oslo**

FARM POLICY

French and Germans in talks

French and German agriculture ministers will seek to bridge the gap in their positions on reform of European Union farm policy at an informal lunch in Cologne today.

The talks are designed to pave the way for a resumption in Brussels this evening of stalled negotiations among the 15 EU agriculture ministers on restructuring the Common Agricultural Policy. These negotiations should have resumed on Tuesday but Jean Glavany, the French agriculture minister, requested a delay to allow the French time to find common ground with Karl-Heinz Funke, his German colleague, who is chairing the sessions.

Yesterday there was no indication France had dropped any of its strong objections to the reform proposals put forward last week by the European Commission and backed by Germany during a four day meeting. However, Mr Glavany said earlier this week France was preparing a memorandum that would offer fresh ideas. These are expected to focus on enhancing incomes for small farmers while endorsing cuts in subsidies for large-scale capital intensive farming. **Robert Graham, Paris**

STATE AID

Brussels warns Germany

The European Commission yesterday threatened to rule against the German government in a highly sensitive state aid inquiry involving the country's third most powerful bank.

Karel Van Miert, the competition commissioner, said Germany had 10 days to provide specific documents related to a DM5.9bn (€3bn, $3.3bn) capital transfer in 1992 to Westdeutsche Landesbank, after which the Commission would rule the transaction unlawful.

According to Brussels, the German government refused to supply the information requested by the investigative team, saying it was not relevant. "The Commission considers that the missing information is indeed necessary for an accurate assessment of the transaction under state aid legislation," the Commission said yesterday. The investigation involves claims that WestLB received unlawful state handouts of up to DM5.9bn through the integration of housing development funds. **Emma Tucker, Brussels**

GIBRALTAR

Spanish criticism of blockade

For the first time in Spain's lengthy campaign to recover sovereignty over Gibraltar, Spanish authorities from towns adjacent to the British colony have publicly protested against an economic blockade imposed on it by the Madrid government.

José Antonio Fernández Pons, mayor of La Linea, the Spanish town that borders Gibraltar, yesterday led a demonstration calling for an end to strict border restrictions that have for the past month effectively sealed the colony's link with mainland Spain. Mr Fernández Pons, who was backed by mayors of neighbouring Spanish towns and local union leaders, said the frontier controls penalised La Linea as much as the colony because Gibraltar was the area's main "factory".

Some 4,000 people who enter Gibraltar from La Linea daily to work and a further 4,000 townspeople who receive pensions from the colony are directly affected by the restrictions. Madrid has promised significant investment in La Linea area to loosen its dependence on Gibraltar but it intends to maintain its border policy. **Tom Burns, Madrid**

KOSOVO CONFLICT

Serb forces in fresh clashes

Kosovo Albanians hunted for food and shelter yesterday after fleeing villages near the Macedonian border, where they reported fresh clashes between Serb forces and ethnic Albanian guerrillas.

Nearby, the Yugoslav army staged a huge exercise using heavy artillery and tanks.

The United Nations says fighting has driven 1,200 ethnic Albanian refugees into Macedonia since February 26. A further 4,000 ethnic Albanians have been displaced from their homes in the area and most are sheltering with friends and family.

As Milan Komnenic, Yugoslav information secretary, warned against "over-dramatising" the situation in Kosovo, troops put on a display of force as they exercised in southern Kosovo with heavy artillery, tanks and more than 100 soldiers. **Reuters, Kosovo**

WAR CRIMES

Former camp chief on trial

Croatia today starts the trial for crimes against humanity of Dinko Sakic, a former commander of the second world war Jasenovac concentration camp run by Croatia's Nazi-backed Ustashe government.

Mr Sakic is charged for his role in the death of more than 2,000 prisoners during his six-month term as commander of the camp in 1944. He was extradited from Argentina last June after giving a television interview in which he denied killing prisoners. The Ustashe executed thousands of Serbs, Jews and gypsies at Jasenovac, known as "the Auschwitz of the Balkans".

Mr Sakic was taken to a Zagreb hospital earlier this week after he fainted. The trial is set to start on schedule, and the president of the judicial council will then decide if it should be postponed because of Mr Sakic's health. **Jared Manasek, Zagreb**

Ukraine votes for closer links to CIS

By Charles Clover in Kiev

Amid shouted insults and appeals to motherhood and the Orthodox faith, Ukraine's parliament yesterday voted to join the inter-parliamentary assembly (MPA) of the Commonwealth of Independent States (CIS) in a move many say could be a step towards reformation of the Soviet Union.

The MPA issues recommendations on legislation that aims to harmonise laws in the CIS, a loose alliance of 11 former Soviet states.

Although joining the assembly does not give Ukraine membership of the CIS and although the MPA has limited powers, the debate on whether to join has proved emotional for the country, as doing so means greater co-operation with Russia and marks a shift in the country's orientation from west to east.

Before yesterday' vote, Vyacheslav Chornovil, of the nationalist Rukh party, who opposed joining the MPA, told deputies: "We are in the process of changing the vector of Ukrainian politics from a European to a Eurasian orientation."

Hennady Udovenko, the former foreign minister, said the MPA was "the first step towards recreation of the Soviet Union in some form".

During the parliamentary session, Oleksandr Tkachenko, the parliamentary speaker who favours joining the MPA, spent much of his time using his microphone to bludgeon nationalists who were trying to swarm the podium and prevent a vote. The motion eventually passed, with 230 of 450 deputies in favour.

When a motion to join the MPA was last put to a parliamentary vote, in January, it sparked a brawl between nationalists and communists and only garnered 176 votes.

The next step may be for Ukraine to join a customs union with Russia and other former Soviet states, analysts say.

Ukraine, which spent 350 years under the wing of Moscow, has spent much of its seven years of independence trying to distance itself from Russia and look westward.

But its weak post-1991 economy has caused some of the population to lose faith in independence and seek solace in the Slavic-Orthodox culture many share with Russia. Meanwhile, Ukraine's elite has been frustrated by the hesitation of European institutions, mainly the European Union, to deepen links with Ukraine. Mr Chornovil was last week sacked as chairman of the Rukh party amid what many see as a crisis of direction in the nationalist movement.

Ukraine's vote on joining the MPA was linked to Russia's ratification last month of a treaty which recognised Ukraine's sovereignty within its present borders.

Vladimir Avirchev, a member of the Russian Duma's committee of international affairs, said last week that in a December trip to Moscow, Mr Tkachenko had "promised that Ukraine would join the MPA in exchange for Russian ratification of the treaty".

Belgium ponders how to breach widening divide

Flanders in the north is pushing for more power at a regional level, much to the alarm of the south, writes **Neil Buckley**

The regional parliament of Flanders, Belgium's Dutch-speaking northern half, was yesterday locked in heated debate about a constitutional reform paper that would transfer a number of powers from federal to regional level. But French-speakers in the south warn this could mark the beginning of the end of the Belgian state.

The 50-page paper has caused uproar in Wallonia, Belgium's southern region. French-language newspapers called it the "final stage before divorce".

Reactions on the Flemish side have been low-key. Editors at De Standaard, the Dutch-language daily, say they thought hard whether they should even put the story on their front page.

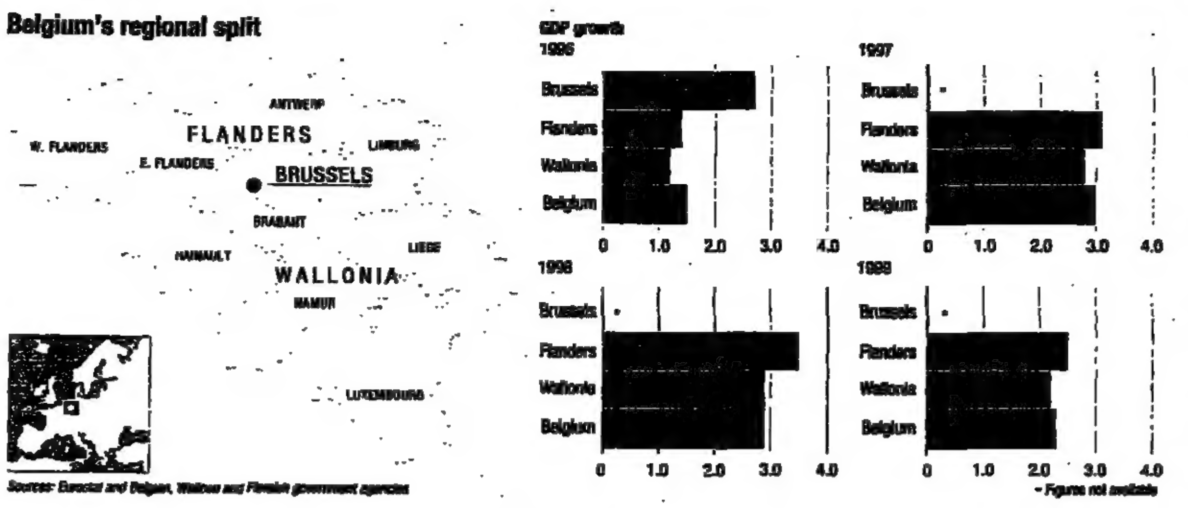
The reactions say much about the widely divergent opinions in north and south on the future of the 169-year-old Belgian state.

The paper, the fruit of three years' work in the Flemish parliament's state reform committee, is a "wish list" of Flemish demands for the next round of Belgian constitutional reform, due after general elections in June.

Four reform rounds since 1970 have already transformed Belgium from a unitary into a federal state. The aim is to keep everybody happy in a country with three main languages – French, Dutch and German, spoken by 60,000 in the east. Brussels, the capital, is located within Dutch-speaking Flanders but is 85 per cent francophone.

The result is a federation of three "regions": Flanders, Wallonia and Brussels-Capital, overlaid with three language "communities", Flemish, (Dutch speaking), French and German. Each has a parliament and government.

The communities control education and culture, with the French and Flemish communities sharing responsibilities in Brussels. The regions are responsible for economic and industrial policy, environment and planning. The federal government looks after the rest, including defence, social security and justice.



Sources: Eurostat and Belgian, Walloon and Flemish government agencies

However, the Flemish proposals seek to transfer a number of powers from federal to regional level. They include income tax, healthcare, family allowances, employment policy, foreign trade, communications, farming, even the railways. They also seek to downgrade Brussels' regional status, leaving the capital "co-governed" by Flanders and Wallonia. Federal government would be reduced to a skeleton. In one step, Belgium would become what constitutional experts call the "empty shell", a confederation of two largely autonomous states.

Economic realities mean the plan has deeper resonance for Wallonia. Long the country's industrial powerhouse, it is undergoing a painful conversion process and its economic performance lags far behind that of high-tech Flanders.

The current system, where federal government collects most taxation, results in a fiscal transfer from north to south, estimated to be worth up to BFr500bn ($13.6bn) annually. The Walloons see attempts by Flanders to "regionalise" taxation and parts of social security as a ploy to avoid subsidising their poorer neighbours.

Hervé Hasquin, a Brussels minister and historian of Wallonia, says the south made a net contribution to financing Belgium for 130 years. "It would be distressing and scandalous if, at the moment when the situation is reversed and Wallonia needs help, those in the north who are now richer wanted to break the links," he warned last month.

The Flemish say the plan reflects their right to reap, through tax revenues, the rewards of economic success. The parliamentary document also explicitly recognises the need for solidarity with the south – since a prosperous Wallonia is in Flanders' interests. The Flemish say the current system is opaque and ineffective.

Many suggest Flanders should support Wallonia's reconstruction with targeted aid rather than propping up the current system through subsidies.

The Flemish reform proposals are highly unlikely to be adopted in full. They would require a two-thirds majority in the federal parliament, including majorities of both French- and Dutch-speaking members. But they will strongly influence this year's discussions on state reform and have made Belgium's future shape a central election issue.

They have also sent a clear signal that while many francophones are happy to maintain the status quo, the Flemish want to go much further with devolution.

Some commentators suggest the differing reactions to the reform plan reflect the weaker emotional attachment Dutch-speakers feel to what was for 130 years a French-dominated state in which they had to battle for recognition of their right to use their own language.

Dirk Achten, editor-in-chief of De Standaard and author of a forthcoming book on Belgium's future, says the Flemish have already made the psychological leap to the idea of a confederation, or even break up of the Belgian state.

"In the south they say, not only are you taking away our state, but you are taking away our money. It's a double blow," he says. "For us, this just continues the line of negotiations that have been going on for 30 years."

Danes to open up power market

By Clare MacCarthy in Copenhagen

Denmark moved into the fast lane of European electricity liberalisation yesterday with a multi-party deal that will open its power market to full cross-border trade, deregulate prices and give consumers freedom of choice in selecting an electricity supplier.

The new deal, supported by virtually all parliamentary parties, exceeds the requirements of the European Union's electricity directive, which came into force last month.

The directive allows industrial and commercial customers using more than 40GWh a year the freedom to move to their supplier of choice. Denmark now plans to extend this liberty to all consumers.

Under existing Danish legislation, only companies with an annual power consumption in excess of 100GWh at a single site are permitted free choice of electricity supplier. Under the new deal, this right will be extended to customers using more than 10GWh a year until April 2000, and to those consuming more than one GWh by the end of that year. Complete liberalisation is envisaged before the end of 2002.

Yesterday's agreement also included measures boosting Denmark's policy of increased reliance on electricity from renewable sources such as windpower, biomass plants and solar cells. By the end of 2003, Danish consumers will be obliged to take a 20 per cent quota of their power consumption from renewable sources.

The liberalisation package should benefit the government's finances, because new entrants to the Danish power market will be liable to tax just as any other company. Existing utilities are non-profit co-operatives owned by the consumers, and therefore pay no tax.

Paris plan to extend health insurance

By Robert Graham in Paris

France's Socialist-led government yesterday unveiled plans to extend full public health insurance to low income groups in a move that will benefit 6m people.

The scheme is part of an electoral pledge by Lionel Jospin, the prime minister, to fight poverty and follows a year of planning. The scheme is expected to cost FFr9bn (€1.4bn, $1.5bn) a year, split between central government and regional councils. The law introducing it will be given priority so it can be included in next year's budget. France already devotes 9.6 per cent of GDP to health spending, compared with a 7.9 per cent average in the European Union.

Martine Aubry, social affairs minister, said the measures would rectify a situation "of intolerable inequality". She said that under the existing national health insurance system at least 150,000 people were excluded from health care, while a further 6m had only minimum cover. This has long been criticised for being inadequate for many basic health needs. Only those in work, who contribute to the health insurance scheme through their pay packets, or those who make their own contributions, are presently covered.

They pay for treatment, then receive a full or partial refund. The majority make top-up contributions into additional schemes, which are increasingly managed, though not owned, by private groups. As a result many French people on low incomes find they are unable to pay for proper health care.

The new plan not only gives those excluded from the basic insurance scheme free cover; it also entitles those with monthly incomes of FFr3,500 or less to free additional cover for all medical expenses.

Little gain from Social Security plan – Greenspan

By Gerard Baker in Washington

Alan Greenspan, the chairman of the Federal Reserve, clashed again with senior officials of the Clinton administration yesterday when he intensified his one-man campaign against their plan to invest a portion of public pension funds in the stock market.

Mr Greenspan said shifting part of the accumulated surplus of Social Security, the state pension scheme, into equities from the Treasury bonds it now holds exclusively would not produce the big financial gains claimed for it.

Nor would it raise the overall returns on the economy's assets needed to meet the long-term goal of raising pension incomes.

"Investing Social Security assets in equities is... largely a zero-sum game," he told the House of Representatives' ways and means committee.

The Fed chairman's remarks went further than his previous expressions of scepticism about the plan, which had been based largely on his concern that the new funds would be subject to too much political interference. Yesterday he challenged the economic assumptions of higher returns on which the proposal was based.

But testifying before the same committee later, Lawrence Summers, deputy Treasury secretary, defended the plan, arguing it would increase returns.

"Between 1959 and 1996 the average annual rate of return earned on stocks was 3.84 per cent higher than the rate earned on bonds held by the trust funds," he said. "We believe that it is important to give all Americans, even those of low and modest means, the opportunity to enjoy these potential benefits from stock market performance."

However, Mr Greenspan argued the likely gains had been generally overstated. The process of shifting $600bn of public money away from bonds towards equities would in itself lower the price of bonds and raise the price of equities, reducing the return they produced.

"If this is indeed the case, then the net increment to the government of investing the trust fund in equities on an ongoing basis presumably would be less than the historical rates of return suggest," Mr Greenspan said.

Mr Greenspan said that since the measure would have no overall effect on national savings, any increases in the returns to be had from equities would be offset by lower returns for the rest of the economy.

"The underlying economic assets in the economy would be unchanged, as would the total income generated by those assets. Any increase in returns realised by Social Security must be offset by a reduction in returns earned on private portfolios, which represent, to a large extent, funds held for retirement."

Mr Summers dismissed Mr Greenspan's earlier claims that the proposal would lead to politicised decision-making about equity investments, reducing still further the likely rate of return. He said the experience of state and local governments did not support that argument.

The Fed chairman restated his support for the broad thrust of President Bill Clinton's plans, which Congress is now considering, to use the bulk of the projected surpluses (invested in Treasury bonds) to shore up Social Security.

Budget 'to top spending limit'

By Deborah McGregor in Washington

President Bill Clinton's budget for the year 2000 would exceed statutory spending limits by $30bn, breaking through caps that were part of the 1997 balanced-budget agreement between Congress and the White House, according to the Congressional Budget Office (CBO).

The CBO also found that Mr Clinton's budget would leave surpluses $73bn smaller than the president claimed over the next five years.

Republicans argue that the $1,800bn budget proposed by Mr Clinton in February spends more and saves less than he has claimed.

Testifying before the Senate Budget Committee yesterday, Dan Crippen, the new CBO director, told lawmakers that part of the reason his agency arrived at the lower surplus estimates was because several of the revenue-raisers in Mr Clinton's budget were not permissible under the rules.

For instance, Mr Clinton would pay for many of his tax credits and domestic spending proposals by increasing taxes, such as an envisaged $8bn increase in the tax on cigarettes in 2000.

Mr Crippen said such offsets were not legal because budget rules do not allow tax increases to pay for more spending on the discretionary side of the budget, which amounts to one-third of all federal spending. Tax increases can only pay for corresponding tax breaks.

But Mr Crippen gave Republicans on the committee little comfort when he dismissed a budding effort by some in the party to fence off future surpluses. Several Republicans, including Pete Domenici, the powerful Budget committee chairman, want to enact legislation that would separate Social Security surpluses from the rest of the budget.

This would effectively end the present practice of using such funds to finance the routine operations of the federal government.

Meanwhile, Mr Clinton and Vice President Al Gore rallied with Democratic legislators on Capitol Hill, seeking party solidarity for their fiscal priorities.

The administration is sticking to its message, first outlined in January's State of the Union speech, that three-quarters of expected budget surpluses must be used to buttress the troubled Social Security and Medicare programmes, cut the national debt and create new savings vehicles for older Americans.

Mr Clinton and Mr Gore also voiced their support for legislation to strengthen the case of patients dealing with managed health care companies.

Republicans, for their part, *sought to stir up support for* cutting taxes with their own rally, led by Dick Armey, House Majority Leader.

Hedge fund rules may be tightened

By Richard Wolffe in Washington

US banking officials are considering ways to tighten regulatory control of banks which lend to hedge funds in the wake of the near-collapse of Long-Term Capital Management last year.

Officials yesterday told the House capital markets subcommittee that a presidential working group – chaired by Robert Rubin, Treasury secretary – was examining regulatory proposals to limit the risks posed by hedge funds.

Lee Sachs, Treasury deputy assistant secretary, said the working group had concentrated on leveraged borrowings by hedge funds and "how the leverage of firms like LTCM can be constrained more effectively".

In particular, the group of officials – which includes the Federal Reserve – are investigating three options. Mr Sachs said the options included "greater regulatory scrutiny" of banks, as well as "resorting to more direct forms of regulation such as expanded use of margin requirements".

Banking officials and congressmen are concerned that direct regulation would drive hedge funds offshore, beyond the reach of US laws.

Officials are also reviewing how banks make lending decisions to highly leveraged institutions such as hedge funds. "We believe that creditors must demand and borrowers must provide more relevant and up-to-date information than they have in the past," Mr Sachs said.

LTCM was leveraged around 28 times, according to US officials, with capital of around $4.7bn and total assets of nearly $130bn at the end of 1997. Most other hedge funds had total assets of less than $100bn and were leverage by a ratio of less than two to one at the time.

William McDonough, president of the Federal Reserve Bank of New York – which co-ordinated the rescue of LTCM – told congressmen that banks were not prepared to assess what type of risks their hedge fund borrowers had undertaken.

"I believe the most practical approach is to focus on financial institutions' lending activities, because such an approach offers a near-term and cost-effective remedy to the systemic risks posed by highly leveraged institutions," he said.

Republican and Democratic congressmen have indicated they are prepared to consider legislation to enforce tighter regulations to limit hedge funds risks to the banking system.

MEXICAN POLITICS WORLD'S LONGEST-RULING PARTY FACES CALLS FOR DEMOCRACY

PRI is 70 years old and still fighting for voters' support

By Henry Tricks in Mexico City

The world's longest-ruling party will mark 70 years in power today, still fighting against relegation to the history books despite increasing internal divisions.

For years, Mexico's Institutional Revolutionary party (PRI) has commanded supporters as varied as its contradictory name suggests, from those with Ivy-league doctorates who run the government, to the straw-hatted peasants bused to its rallies for a sandwich and a soft drink.

At party headquarters, where President Ernesto Zedillo will toast the PRI today, giant murals celebrate violent class struggle, but bankers and business tycoons will also be rattling their Rolexes in the front rows. The call will be for unity before presidential elections in July 2000.

Electoral defeats, once unheard of, have begun to stack up, and many PRI members are demanding greater internal democracy – perhaps ironic in a party that long used political patronage to co-opt its enemies, and outright fraud to rob them at the ballot box.

Often ordinary supporters want to temper the policies of privatisations and deregulation which have prevailed in Mexico for more than a decade – a time when average living standards have slumped.

"Right now the greatest risk for the PRI is that it splits," says Oscar González, a congressman leading a pro-democracy wing within the party. "When it splits, it loses."

The battle is likely to focus on the way the PRI selects its presidential candidate this year, after Mr Zedillo's decision to abandon the president's cherished privilege of handpicking his probable successor.

The party rank and file have already rendered most of the cabinet ineligible for the party's nomination by prohibiting anyone who has never held any elected office.

Now the PRI is being pressed to ensure that no "favourite" emerges from within Mr Zedillo's inner circle with unfair access to public funds and media exposure.

The party has learned the hard way the perils of ignoring its militants, who tend to defect to the opposition, strengthening expectations of an anti-PRI coalition.

Even so, the PRI remains the force to beat.

It has recovered ground nationally since disastrous congressional election results in 1997, and still bears hallmarks of the vote-winning monolith founded by Plutarco Elías Calles, a military boss, in 1929 to end the coups, assassinations, and uprisings that followed Mexico's 1910-1917 revolution.

According to Agustín Basave, a party intellectual, it also continues to tap support in the farthest outreaches of Mexico's mountains, deserts and jungles.

"The only things that get that far are Coke, Pepsi and the PRI."


Elías Calles: founding father

Quito fails to halt sucre slide

By Justine Newsome in Quito

Ecuador's currency fell by 27 per cent yesterday despite a package of tax, spending and structural reforms unveiled by the government.

The sucre dipped below 13,500 against the dollar during the morning's trading amid febrile speculation about central bank policy. The bank has categorically denied market reports it was considering freezing dollar deposits to help the sucre.

However, traders said the sucre recovered to 12,000 against the dollar by midday. But it remained significantly weaker than the closing mid-rate of 9,800 against the dollar on Tuesday.

Traders attributed the rebound to a central bank auction of $500,000 aimed at stopping the sucre's slide.

The currency was floated three weeks ago from its previous value of 7,400 to the dollar. It has been hurt by low oil and commodity prices, concerns over indebtedness and worries about the government's ability to deal with economic crisis.

"Ecuador is living the worst economic crisis for 70 years, but there is a way out," said President Jamil Mahuad in a national television address earlier this week.

An International Monetary Fund mission arrived in Quito on Sunday to discuss a possible stand-by programme.

Deputies have been given 21 days to approve the first package of urgent measures to finance the 1999 budget and hold the government's deficit down to 3.5 per cent of gross domestic product this year from 5.9 per cent in 1998.

"We are not going to spend what we do not have," said Mr Mahuad.

The finance package aims to cut spending through limits on public-sector salaries and on redundancy payments. Mr Mahuad said public servants would be prohibited from earning more than $5,000 a month.

Reforms to allow the privatisation of telecommunications and electricity and greater investment and liberalisation within the hydrocarbons sectors will be sent to Congress in the very near future, the president said. Proposals for tax reform will also go to Congress in the next few days.

Nervousness about the fiscal deficit has contributed to pressure on the sucre, which has fallen 28 per cent against the dollar since it was floated.

A deal with the IMF would allow Ecuador to renegotiate its Paris Club debt and attract new multilateral lending. The IMF is likely to make any support conditional on the reduction of the fiscal deficit, tax reform and progress with privatisation.

The Social Christian Party (PSC), whose votes have so far given the government a congressional majority, looks set to support parts of the financing package, but opposes new taxes.

"We have already approved the principle of cutting the privileges of the gilded bureaucracy," said Xavier Neira, a PSC congressman.

Taking care of mom the big problem

Public/private plans for long-term care have failed so far, according to a new analysis. Nicholas Timmins reports


Roll with it: America's population is ageing

Comstock

Attempts to build public/private partnerships for long-term care of the elderly in the US have "failed the market test, at least so far", according to an analysis prepared by the Urban Institute, a US think-tank.

Yet the system of financing and delivering long-term care for both the elderly and younger disabled people is "badly broken" and generates "much passionate dissatisfaction", according to Joshua Wiener of the institute's health policy centre.

With the parents of the baby-boom generation starting to need long-term care, however, the issue will inevitably move centre-stage shortly, with the question of "How are we going to take care of mom?" becoming a big concern for a substantial portion of the population.

In a paper drawn on in Britain by a royal commission, which this week proposed introducing free personal care – nursing and personal care such as feeding, washing and dressing – for the elderly, Dr Wiener says recent experiments in four states, to provide easier access to Medicaid to those who have taken out approved long-term care policies, have failed.

Under the deal, those entering Medicaid are allowed to keep much more of their assets and still get help. Medicaid is a means-tested assistance programme which only provides nursing home help once savings, excluding the home, have been reduced to $2,000.

But despite having the aim of making insurance cheaper, the policies still remain unaffordable for most elderly Americans, Dr Wiener says. Just 30,000 have been sold in Connecticut, Indiana, California and New York, to a population of 7.2m elderly people. Because the policies have relatively high standards of cover, far more "non-approved" policies – around 5m nationally – been sold. These are often cheaper. But they do not provide easier access to Medicaid and often offer poor protection, notably against inflation. Many people give up the policies before they are old enough to claim.

"Private insurance is unlikely to reform the financing of long-term care," Dr Wiener says. It is a view the majority on Britain's royal commission endorsed this week, although a minority report argued that it could still have a role.

"The notion of a public/private partnership is appealing," he says, particularly in a country where comprehensive health reform seems politically unrealistic. "But it is hard to make more than a slogan."

One option might have been to bar the sale of poorer "non-approved" policies, but the insurance industry would bitterly have resisted that.

If universal, non-means-tested support is politically impossible, he says, the amount people can keep and still receive Medicaid could be raised so that fewer people face "complete impoverishment" before getting help. The UK's royal commission also in part endorsed this approach.

Allowing couples to keep $60,000 of assets and to receive $100 a month for personal needs would cost about $5bn a year, not an "outlandish" amount, Dr Wiener says.

A big improvement in services in people's own homes, rather than in institutions, would help, as would integrating acute and long-term care to remove the incentive for the federal government and the states to shift costs across to each other through the largely federal Medicare health programme and the largely state-run Medicaid.

President Bill Clinton's proposed $1,000 tax credit for the severely disabled and their carers is welcome, Dr Wiener says, but not sufficient to buy full care and unlikely to help the half of elderly disabled Americans or more who do not pay tax.

An ageing population, with more Americans discovering how poor their cover is for nursing and home care, will soon require decisions from policy-makers.

INTERNATIONAL

South Africa eyes June 2 election contest

By Victor Mallet in Johannesburg

South Africa's second democratic election will be held on June 2, President Nelson Mandela announced in parliament in Cape Town yesterday.

The decision on the poll date for the national and the nine provincial governments paves the way for a campaign that Mr Mandela's ruling African National Congress is certain to win – but only after opposition parties have tried to woo voters by complaining about violent crime, poor education standards and a jobless rate estimated at 30 per cent.

"This election is a decisive moment in South African history," Tony Leon, leader of the liberal opposition Democratic party, said yesterday, "and the next five years will show whether we are able to beat crime, unemployment and corruption".

Mr Mandela has presided over South Africa since April 1994, when the first all-race elections – following years of constitutional negotiations between the ANC and the country's white minority rulers – put an end to more than four decades of apartheid. Now aged 80, he is expected to hand over the presidency to Thabo Mbeki, his deputy, after the election.

The 1994 poll was chaotic but good humoured, as black citizens relished their newly won right to vote and whites thankfully sloughed off their apartheid-era guilty consciences.

Five years on, the mood is more sombre. Whites are often fearful of crime and anxious to emigrate, while some blacks believe the government has been too conciliatory towards those who still control most of the country's wealth.

Only just over half the country's eligible 25m voters have bothered to register for the election, although others have a last chance to do so this weekend.

Mr Mandela has said he wants an overwhelming mandate from the electorate in the form of a two-thirds majority for the ANC, compared with the 63 per cent share of the vote the party won in 1994, so that "Mickey-Mouse" opposition parties cannot interfere with government.

This and similar statements by other ANC leaders have alarmed the ANC's opponents. They have made the "two-thirds" drive a campaign issue, arguing that it means the ANC wants to change South Africa's liberal constitution to suit its own ends.

Opposition parties, however, remain weak, and recent opinion polls suggest that none of them will win more than 10 per cent of the national vote. The ANC and the mainly Zulu Inkatha Freedom party, already together in a government of national unity, have drawn closer in recent months, arousing fears among other parties that the ANC will absorb the IFP and entrench itself in power.

"We must be careful in this country that we do not encourage a government that has no strong opposition," said Ngila Muendane of the small Pan-Africanist Congress. "In Zimbabwe they are reaping the whirlwind now."

UN peacekeepers give up on Angola's cat and mouse war

Nicholas Shaxson on a seemingly indefinite conflict

President Jose Eduardo dos Santos' problem with the Angola rebel leader Jonas Savimbi is similar to that faced by Tom, the cartoon cat, suggests the writer Rafael Marques. After many episodes, Tom has never managed to catch and eat his small but elusive foe, Jerry the mouse.

"They fight, with a lot of noise," he says. "Sometimes they almost make friends. And then they fight again."

The Angolan Armed Forces (FAA), fighting for a government that earned around $3bn from oil exports last year, have been bloodily defeated in various battles across northern and central Angola since December by the Unita movement, which digs diamonds worth less than a tenth of that.

The collapse of the latest peace agreement, the Lusaka protocol, has been followed this week by the withdrawal of the United Nations peacekeeping mission after its mandate expired.

Unita has been besieging the northern city of Malanje since January, though the recent heavy shelling was reported to have eased yesterday. "Unita is playing games with the FAA," a diplomat said.

Nevertheless, João Lourenco, secretary-general of the ruling Popular Movement for the Liberation of Angola (MPLA), said his government wants to "completely eliminate Jonas Savimbi's war machine".

"This could take weeks, a year, or two years," he said.

State television now regularly shows pictures of a snarling Savimbi with "war criminal" stamped in large blood-red letters across his face, and his name only appears in state newspapers next to words like "bandit" and "terrorist".

Most analysts believe that despite Unita's recent military successes, the government's resource advantage will eventually let it expand its control over territory – up to a point.

The long-term plan, many argue, may be a cynical acceptance of an indefinite, manageable war in which Unita forces are contained in non-strategic areas while the government controls the main towns and survives handsomely on rapidly expanding oil revenue.

"This is a war of poor people against miserable people," a diplomat said. "The people running the show, especially here in Luanda, are immune from the tragedy."

In this scenario Mr Savimbi also accepts an indefinite war as a natural state of affairs, as he continues to punch out as much geographic and political space for himself as possible.

"For Savimbi, survival is victory. Looking at it that way he has been winning for years," a diplomat said. "But you can be sure he will not let himself be contained quietly. And that makes everyone nervous."

Another peace deal while Mr Savimbi is alive appears out of the question. The government considers two UN-sponsored periods of peace following the 1991 Bicesse agreement and the 1994 Lusaka protocol provided shields for Mr Savimbi to rearm and it says now it will never trust him again with another deal. UN efforts to promote dialogue are decried as biased interference.

Unita officials make no secret of their hopes that one day a military stalemate, combined with worsening social conditions and a growing perception of government corruption, will provoke a favourable political re-alignment in Luanda.

"Unita's greatest asset is the government's mistakes," said a Unita official who originally came to Luanda under the Lusaka deal. "And the government's biggest weak point is bad management."

United Nations troops taking down the UN flag in Luanda on Monday. Peacekeeping efforts have been abandoned after the peace agreement between the government and Unita rebels collapsed Reuters

Long-running strains in the ruling party, the MPLA, and the FAA may have been worsened recently by the poor showing on the battlefield. The appointment of populist and charismatic Kundy Payama as defence minister in a government reshuffle at the end of January was aimed at addressing this very problem.

The latest government shake-up, in which the post of prime minister was abolished, marked a further concentration of power in the president's hands, and placed the government on a new war footing.

Unita's strength in parliament, eroded when nine members defected last year to an anti-Savimbi faction sponsored by the government, was further weakened by the imprisonment in January of five of their colleagues on what diplomats believe were trumped-up charges.

Seven more of the original 70 Unita members of the 220-strong assembly have been threatened with suspension, and the rest have been forced into complex and ambiguous relationships with Mr Savimbi and with their hosts in Luanda.

But rumours of tensions in government have swirled through Luanda many times since independence from Portugal in 1975, and apart from a coup attempt in 1977, Mr dos Santos has held strongly on to power.

"Nothing concentrates minds better than fear of Jonas Savimbi – that has been quite evident here recently and we are seeing the results," a diplomat said.

NEWS DIGEST

TOURIST MURDERS

Museveni vows to kill or capture rebel gang

Ugandan President Yoweri Museveni vowed yesterday to capture or kill the Rwandan rebels who slaughtered eight tourists in Uganda, and said his government had not done enough to protect the victims. Apologising for the deaths, Mr Museveni said a battalion of Ugandan troops had pursued the ethnic Hutu rebels across the border into the neighbouring Democratic Republic of the Congo and would hunt them down. "If we don't catch them, we shall kill them," he told a news conference.

Mr Museveni conceded that Ugandan authorities did not take sufficient precautions to safeguard the lives of tourists visiting Bwindi National Park to track rare mountain gorillas. "Given the criminal nature of mind of these (rebel) groups, which are spread through the region, the authorities concerned should have had the foresight to take precautions in the case of Bwindi, which is close to the Congo border," he said. The victims were four Britons, two Americans and two New Zealanders – four men and four women. One survivor said the eight were bludgeoned and hacked to death with machetes. **Reuters, Kampala**

LEBANON OCCUPATION

Sharon calls for coalition

Ariel Sharon, Israel's foreign minister, yesterday proposed cancelling elections and forming a national unity government to pull Israeli forces out of Lebanon, in a further sign of disarray over policy in occupied south Lebanon.

Ehud Barak, opposition Labour leader, swiftly rejected the proposal. One day earlier, Mr Barak pledged to withdraw Israeli troops from Lebanon within one year of taking office, if he wins the elections in May. Benjamin Netanyahu, Israel's prime minister, also rejected the proposal. "We want to leave Lebanon but we have to ensure that Lebanon doesn't come to us," he said. Israel's policy in its self-declared "security zone" in south Lebanon has turned into an important election issue since hostilities with Hizbollah, the Lebanese Shia Islamist movement, escalated over the past two weeks. **Avi Machlis, Jerusalem**

SENEGAL PRIVATISATION

Electricity stake to be sold

The Senegalese government is to sell 34 per cent of Senelec, the national electricity company, to Elyo, a subsidiary of the French utilities group Suez Lyonnaise des Eaux, and Hydro Quebec International, the Canadian utility, the companies said yesterday. The FFr390m ($65m) deal, part of wider plans to liberalise Senegal's energy market, includes the possibility for the consortium to increase its stake to 49 per cent in the next five years.

The Franco-Canadian consortium will also take over the management and operations of the company, as part of a 25-year concession to generate and distribute electricity to Senelec's 330,000 customers. Market reforms, however, will allow other generators to start up in coming years, although the consortium has exclusive rights on the distribution side. Senelec's production capacity is 300MW, but the deal also includes an additional 60MW plant under construction. The company had turnover of roughly FFr800m last year. **Samer Iskander, Paris**

EU attacks US over list of target items in banana war

By Guy de Jonquières

The US yesterday sought to buy time in its dispute with the European Union over bananas by deferring full implementation of its threat to impose sanctions on more than $500m of EU exports.

Washington said it was immediately declaring a list of EU products liable to 100 per cent tariffs, but would not collect the higher duties until World Trade Organisation arbitrators had determined the amount of damages to which it was entitled.

But the EU strongly condemned the decision. Sir Leon Brittan, trade commissioner, said it "fanned the flames of the dispute" and was unacceptable and unlawful. He called for urgent consultations with the US and said the EU would be discussing further moves in response.

The US move, known as suspension of customs liquidation, was prompted by a last-minute delay in the arbitrators' report, which had been expected on Tuesday. The US hopes the compromise will satisfy domestic political demands for immediate retaliation, without bringing it into conflict with WTO rules.

However, the decision was expected to arouse strong criticism in the US Congress. President Bill Clinton promised Congress last year to impose sanctions by today if the EU had not complied with a 1997 WTO ruling against its banana import regime.

Some observers said that if Mr Clinton delayed acting for much longer, Congress members might try to force his hand by reviving a proposal to legislate mandatory sanctions against the EU.

The US would not say how much longer it was ready to wait for the WTO arbitrators' decision. But Peter Scher, special trade ambassador, said he expected them to report soon after the middle of this month.

He said yesterday's decision was intended to "give the WTO system the benefit of the doubt" and to protect the legal right of the US to retaliate.

He conceded, however, that it was possible that the report could be delayed until April 12, when the panel arbitrating on the sanctions is due to rule on whether the EU has complied with the WTO judgment against its banana regime. Although the EU recently modified the regime, which favours imports from Africa, the Caribbean and Pacific, Washington says it still discriminates against US distributors of Latin American fruit.

Exports liable to US sanctions span a diverse range of products, including fountain pens, cashmere sweaters and pork, from all EU members except Denmark and the Netherlands. However, greeting cards and chandeliers are being dropped from the original US sanctions list.

Mr Scher said that the sanctions had been calculated in the light of US estimates of trade lost because of the banana regime, but that the amount could be adjusted in the light of the WTO arbitrators' report.

Charlene Barshefsky in Beijing yesterday for talks on China's accession to the WTO Reuters

Delivery downturn 'will hit Boeing'

By Michael Skapinker, Aerospace Correspondent

A downturn in civil aircraft deliveries will begin next year and Boeing of the US will suffer more than Airbus Industrie, its European rival, according to Moody's Investors Services, the credit rating agency.

Moody's said the downturn would continue into 2001. "However, several elements suggest this coming downcycle will be less severe than the last one," said Tassos Philippakos, Moody's senior vice-president.

Airline companies had strengthened their balance sheets. "Management also has been very prudent, ordering aircraft only when the need is compelling," Mr Philippakos said. This would limit the number of aircraft cancellations when the downturn began.

Moody's said it expected aircraft deliveries to peak at 900 this year, against 798 in 1998 and 562 in 1997. Aircraft manufacturers would find it difficult to increase prices, despite commitments by Boeing and Airbus to maximise profit margins.

Moody's said the manufacturers would be unable to raise aircraft prices because of the effect this would have on airline profitability. Mr Philippakos said Boeing would suffer more in the coming downturn than Airbus because its exposure to Asia was greater.

Before the Asian financial crisis, the aircraft industry had set great store by growth prospects in the region, expected to account for over a quarter of civil aircraft demand in the next 20 years.

Because of an intensive sales effort in the region, about 30 per cent of Boeing's backlog at the end of 1997 measured by value, was based on orders from Asian airlines. Only 18.3 per cent of Airbus's manufacturing backlog was for Asian orders.

Airbus had enjoyed more success selling aircraft to European and North American airlines than to Asian companies.

Boeing's dominance of the large aircraft market had also increased its exposure to Asia, which operated a higher proportion of bigger jets than any other market.

But Moody's said the damage from the Asian crisis would be mitigated by orders the two manufacturers had won in countries less affected by the economic downturn.

About 67 per cent of Boeing's Asia-related backlog depended on countries not seriously affected, such as Australia, New Zealand, China, Singapore, Taiwan, India and Japan. Some 59 per cent of Airbus's backlog of Asian orders was in less-affected countries.

Australia presses for liberalisation of parallel imports

By Gwen Robinson in Sydney

The Australian government is pressing for the liberalisation of parallel imports of books and computer software, following market opening for CD imports late last year. The move is part of what the Australian Consumer and Competition Commission (ACCC), the country's anti-trust and fair trade watchdog body, described yesterday as a "step by step" approach to parallel import liberalisation.

The ACCC, which last year won a long political battle for legislation to allow parallel imports of CDs, said it was asked "at short notice" by the government to report by the end of March on consumer benefits of liberalising book imports. Computer software is likely to follow, commission executives said, indicating the government intended to present legislation allowing parallel imports of book and software by July. Microsoft, the US computer company, warned that changes in Australian law relating to software imports could result in more pirated products being sold in Australia. "Allowing parallel imports (of software) means customs authorities will increasingly have problems detecting the shipments they can seize," said Microsoft Asia-Pacific's corporate attorney, Ron Eckstrom.

But ACCC officials said the government was determined to introduce the legislation before changes in the composition of parliament's upper house took effect in July. The changes follow a national election last year, in which opposition parties, the Democrats and the Labour Party, increased their numbers.

Australian book publishers, who would be directly affected by the government's move to liberalise book imports, said they would campaign against any plan to liberalise the book trade. The Australian Publishers Association, an umbrella group representing more than 80 per cent of the industry, said it would lobby against the ACCC's intention to open the market to parallel imports.

The ACCC has previously said that Australians pay too much for some imported books and business software.

The government's request for a report from the ACCC followed the liberalisation of CD imports last October, a move opposed by record companies and artists' groups. But Allan Fels, ACCC's chairman, said last week the changes had already brought down the prices of CDs in Australia "without great impact on record companies." Mr Fels said surveys showed the average price of CDs had fallen by nearly A$2 (US$1.25) from an average A$30-plus, while some retailers had reduced the cost of selected top-selling CDs by nearly one third.

However, Mr Fels, ACCC chairman, said any decisions to allow parallel imports of CDs, software and books would help retailers in Australia counter growing use of the internet, which enabled consumers to bypass retailers.

In response to retailers' concerns about the potential increase of imports of pirated books and software, Mr Fels said the government had already raised penalties for pirated CD imports – raising fines and reversing the onus of proof to the retailer from the consumer.

Mounting arrears fuel concern over foreign aid in Japan

By Michiyo Nakamoto in Tokyo

Japan is becoming increasingly concerned about the high level of foreign aid that has not been repaid on schedule.

According to the foreign ministry, at the end of last March, Y440bn ($3.6bn) in yen loans extended to foreign governments and other organisations as part of Japan's official development assistance (ODA) programme had not been repaid six months after the payment deadline. This is the first time that the total arrears of yen loan principal payments has been disclosed. If the amount that the Paris Club of creditor countries has agreed to reschedule is included, the arrears come to Y530bn.

Yen loans are an important pillar of Japan's ODA programme and are provided at very low interest rates for development projects. They generally go towards infrastructure projects such as roads, bridges and airports. Although interest is low and the repayment period can be as long as 40 years, in principle Japan has insisted on repayment.

Japanese ODA, which has played an important role in Japan's foreign policy, seldom attracts public attention. However, the prolonged recession has raised domestic criticism that Japan's aid programme, much of which is not tied to purchases of Japanese goods, should be of greater benefit to Japanese companies suffering a severe slowdown at home.

Revelations some Japanese companies had used ODA funds for unauthorised purposes also triggered public criticism of lax controls.

The level of delayed payments is only a fraction of outstanding yen loans, at Y9,300bn, and the foreign ministry emphasises that so far there has never been a single default on Japanese yen loans. "These are all government guaranteed so we have no concerns about the danger of default," said a foreign ministry official.

However, amid continuing economic uncertainty in Japan and developing countries, the latest revelations about payments in arrears are likely to fuel further concerns about ODA programmes. The Japanese government has set aside a special $30bn fund to assist five Asian countries struggling to obtain funds.

"The level of payments in arrears is too high. Humanitarian and effective ODA is of course necessary, but amid the severe recession, given that (ODA) uses taxpayers' money, it is necessary to strictly monitor the substance of the aid and to review (the programme)," Junji Higashi, a Komeito member of parliament said.

Many of the largest recipients of Japanese yen loans are facing a slowdown in economic growth. Indonesia, which has suffered a severe economic contraction and is still in danger of political and social turmoil, is the largest recipient with Y1,700bn outstanding.

● Nippon Telegraph and Telephone (NTT) yesterday defended the level of access fees it charged competitors as "reasonable" and rejected US claims the fees were too high and stifling competition, Reuter reports from Tokyo. NTT said it had cut the fees charged to competitors to connect to NTT's local network by 40 per cent since 1994.

China to set up huge LNG import project

By James Kynge in Beijing

China is expected to grant approval for a multi-billion US dollar project centred around the country's first liquefied natural gas (LNG) import terminal, marking an important shift in Beijing's energy strategy.

Industry executives said the state council (cabinet) was studying a preliminary feasibility study on the import complex, to be located near Shenzhen in the southern province of Guangdong. Formal approval was likely sometime over the next few months, officials and executives said.

The project, which would be based on imported gas, is indicative of China's growing preoccupation with minimising pollution and emphasising efficiency in energy consumption.

Zhu Rongji, the premier, is among many prominent advocates of a strategy to reduce reliance on coal, which currently supplies around 60-70 per cent of China's energy needs.

Natural gas accounts for only about 2 per cent of China's annual fuel consumption, significantly lower than the 10 per cent world average.

If the Shenzhen project proves a success, approval may be granted for other similar terminals along China's east coast, industry experts said.

International oil majors such as BP/Amoco, Mobil, Shell, Total and others are believed to be interested in forming joint ventures with a Chinese counterpart to supply and operate the Shenzhen project.

A bidding process may start shortly after the project wins approval from the state council. The most likely local partner is to be a consortium led by the China National Offshore Oil Corporation, a state-run concern, which is keen on taking a majority stake.

Some details may be altered, but the project's main features are to be an import terminal capable of processing 3m tonnes annually, and a pipeline, possibly more than 100km long to supply a power station – as yet unbuilt – in Guangdong province. Other pipelines may be built to supply retail consumers in the province.

The cost of the terminal and the pipelines have been put at around $600m and the power station, which will be about 50 per cent more efficient than coal-burning stations, may require between $1bn to $2bn in investment.

Construction of the terminal is expected to start in 2000-2001 and the first deliveries may begin around 2004-2005, executives said.

Much of the remaining investment needed for the project will be devoted to delivering the LNG to China from one or more of several competing areas, including Australia, Indonesia, Malaysia and Yemen.

One leading contender for supplying the gas, the North West Shelf project in western Australia, is hoping to win the Shenzhen deal in order to justify an expansion plan which could cost up to US$5bn. Another Australian hopeful, the Gorgon project also in western Australia, is hoping to win the LNG contract to help launch its US$8bn development.

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales.

Provisional Prices for Trading on 04.03.99 — Final Prices for Trading on 04.02.99

½ hour period ending	Pool purchase price £/MWh	Pool purchase price £/MWh	Pool selling price £/MWh	TS use of system price £/MWh
0030	19.98	22.03	22.36	1.15
0100	19.98	27.23	27.56	1.15
0130	19.17	9.40	9.40	0.00
0200	19.17	9.38	9.38	0.00
0230	19.17	9.40	9.40	0.00
0300	19.17	9.38	9.38	0.00
0330	25.00	9.38	9.38	0.00
0400	25.00	9.38	9.38	0.00
0430	19.12	9.38	9.38	0.00
0500	16.63	9.36	9.36	0.00
0530	16.81	9.36	9.36	0.00
0600	19.36	9.40	9.40	0.00
0630	19.36	20.59	20.92	1.15
0700	18.38	20.59	20.92	1.15
0730	19.55	28.67	29.00	1.15
0800	20.35	28.67	29.00	1.15
0830	56.21	28.67	29.00	1.15
0900	56.21	28.67	29.00	1.15
0930	33.04	28.67	29.00	1.15
1000	24.75	53.98	54.31	1.15
1030	24.17	53.98	54.31	1.15
1100	24.17	53.98	54.31	1.15
1130	24.17	53.98	54.31	1.15
1200	24.17	53.98	54.31	1.15
1230	24.17	72.70	73.04	1.15
1300	24.17	72.70	73.04	1.15
1330	20.71	31.73	32.07	1.15
1400	24.75	27.76	28.09	1.15
1430	24.75	32.96	33.30	1.15
1500	24.75	32.96	33.30	1.15
1530	24.75	32.96	33.30	1.15
1600	24.75	31.74	32.07	1.15
1630	56.21	35.60	35.96	1.15
1700	58.23	55.88	57.00	1.15
1730	60.88	56.64	57.37	1.15
1800	80.00	68.48	68.33	1.15
1830	81.11	64.88	66.26	1.15
1900	66.02	62.72	63.49	1.15
1930	65.00	51.78	52.23	1.15
2000	58.53	43.56	43.91	1.15
2030	68.48	43.50	43.84	1.15
2100	56.21	35.50	35.83	1.15
2130	56.21	26.62	25.95	1.15
2200	22.18	25.79	26.12	1.15
2230	28.71	25.79	26.12	1.15
2300	20.71	25.79	26.12	1.15
2330	20.71	9.44	9.44	0.00
2400	10.20	9.42	9.42	0.00

Prices are determined for every half-hour in each twenty-four hour period. Prices are in pounds per megawatt-hour, rounded to two decimal places. To convert prices to pence per kilowatt-hour the decimal point should be moved one place to the left, eg £16.82/MWh becomes 1.682p/KWh. Provision for the determination of pool prices is made in the Pooling and Settlement Agreement which governs the operation of the electricity pool in England and Wales. The Pool Purchase Price is the basis of the majority of payments made to generators in respect of electricity traded through the pool. The calculation of pool prices is a highly complex process the product of which is subject to revision or correction (and sometimes major alteration) until final pool prices are determined approximately twenty-four days after the day of trading. Accordingly, due to the possibility of their revision and/or correction, no reliance should be placed upon provisional pool prices for any day being the same as final pool prices for that day. Final pool prices are also capable of revision. The Transmission Services Use of System Price (TSP) is charged by the National Grid [illegible]

World retail pharmacy purchases 1998
($m)

	US	Japan	Germany	France	Italy	UK	Brazil	Spain	Canada	Argentina	Mexico	Aust/NZ
Cardiovascular	13,884	7,174	3,755	3,897	2,114	1,724	980	1,203	1,050	536	259	585
Alimentary/Metabolism	11,355	6,375	2,369	2,136	1,353	1,499	1,066	828	646	848	614	443
Central Nervous System	16,386	2,214	2,517	1,994	1,039	1,455	632	844	786	508	386	375
Anti-infectives	7	4,588	1,901	1,613	1,204	458	731	532	295	407	636	178
Respiratory	7,381	2,506	1,364	1,319	754	1,224	682	561	383	303	351	315
Genito-urinary	5,086	813	1,445	844	483	473	610	217	225	241	214	113
Musculo-skeletal	2,841	2,623	938	689	503	388	540	249	186	256	215	74
Others	18,185	12,471	1,190	1,873	1,673	1,164	1,095	850	705	958	588	381
Total	74,095	38,784	15,470	14,165	8,123	8,385	6,536	5,284	4,276	3,557	3,283	2,464
% Change*	11	-1	6	4	8	8	-5	11	11	8	11	8

Source: IMS Health

* Changes exclude currency movements

US prescription drugs sales rise pushes world figures to record

By David Pilling in New York

Sales of prescription drugs reached a record high of $185.3bn last year in 13 selected countries, in spite of flat or declining volumes in some of the world's biggest markets including Japan, France and Brazil.

The strength of the US economy and the continued willingness of private insurers to fund rising drug bills pushed total US prescription sales to $74.1bn in 1998, 11 per cent higher than the previous year.

The latest data from IMS Health, which monitors sales of prescription drugs worldwide, underline why many pharmaceutical companies have been increasing their US sales forces and spending more on direct-to-consumer advertising. Goldman Sachs estimates that the US accounts for 40 per cent of total drug company sales and 60 per cent of profits.

Sales in Japan, the world's second-biggest pharmaceuticals market, fell 1 per cent to $38.8bn.

Japanese authorities have taken a series of measures to squeeze drug budgets, especially for high-priced new products, amid concern that spending on pharmaceuticals could get out of hand as the population ages.

It often takes years to get Japanese regulatory approval for drugs already well-established in the US and Europe.

However, according to IMS Health, sales in Japan show signs of stabilising, after several years of sharp declines. The drug approval process may also speed up as authorities show greater willingness to accept data from clinical trials conducted outside Japan.

Until recently, Tokyo had insisted that genetic and metabolic differences meant that evidence of a drug's safety and efficacy gathered in the west had only limited validity in Japan.

Observers continue to predict the consolidation of Japan's fragmented domestic drugs industry, a process which some believe may help foreign companies gain a stronger foothold in what has been a notoriously difficult market to penetrate.

Brazil, the world's seventh most important drugs market, saw sales drop 5 per cent to $6.5bn largely as a result of economic slowdown. It is not yet clear what effect the recent devaluation will have on a market that, after China, is considered one of the best prospects for the drugs industry.

The developing world still counts for only a fifth of world drug sales by value, with the US, Japan and Europe accounting for nearly 80 per cent.

In Europe the picture was mixed last year. Germany and France, the world's third and fourth biggest markets respectively, grew at 6 and 4 per cent to $15.5bn and $14.1bn.

Italy and the UK, which come fifth and sixth, both grew at 8 per cent to $9.1bn and $8.4bn respectively. Spain, Europe's fifth biggest consumer of drugs and eighth in the world, was one of the few markets that grew as quickly as the US, rising 11 per cent to $5.3bn.

ASIA-PACIFIC

China to reveal weaknesses in national budget

By James Harding in Shanghai and James Kynge in Beijing

China's programme of government spending to lift the flagging economy and the long-term decline in fiscal revenues will reveal an unprecedented strain on the national budget tomorrow, when Zhu Rongji, the prime minister, is expected to announce the largest deficit in two decades.

In a speech to delegates to the National People's Congress, the annual full session of China's parliament in Beijing, Mr Zhu will tell delegates this year's budget will show a RMB150.3bn ($18bn) deficit, 56 per cent higher than last year.

The Chinese leadership will rely heavily on state spending to achieve the 7 per cent economic growth it is aiming for this year. Just as last year's 7.8 per cent growth was driven by an increase in government expenditure particularly on infrastructure construction.

The reliance on deficit spending underlines the weaknesses in the real Chinese economy, namely lacklustre internal demand and falling exports. In a copy of his speech seen yesterday, Mr Zhu says: "The external economic environment we face this year remains extremely serious... It will be difficult to see a relatively big increase in domestic consumption demand for a period of time."

China can afford a ballooning budget deficit, which is still modest by international standards at just 2 per cent of gross domestic product, for at least two more years, analysts calculate. But, the medium-term trends suggest the budget deficit could soon become a heavy burden.

Total outstanding domestic debt, excluding bonds issued by state-owned banks, was officially quoted at RMB750bn – 9.4 per cent of gross domestic product. Total government revenues accounted for just 12 per cent of GDP, one of the lowest of any large economy.

Dong Tao, economist at Credit Suisse First Boston, says: "There is an overemphasis on immediate growth, the exchange rate and state sector reform... [but] the government can control all of these variables, as long as it still has the money for stimulus injections. The real question should be how long it will take before the government runs out of financial resources."

The increase in the deficit, which has risen by nearly 50 per cent since China's finance minister gave an initial estimate for the national budget at the beginning of the year, is therefore likely to prompt a drive by Beijing to increase revenues.

Tax revenues, which fell steadily from 35 per cent of GDP in 1978 to 11 per cent in 1995, have been further hit by the precipitous decline in the fiscal contribution of state-owned enterprises.

As the State Administration of Taxation has come under pressure to reverse the long-term decline, tax officials have already increased the scrutiny of foreign-invested companies. One business in Shanghai, for example, reports that the tax authorities recently demanded a review of all its payments and transactions dating back to 1993 to root out any unpaid taxes.

The government is also expected to turn increasingly to the domestic bond market to finance the infrastructure spending programme that is Beijing's Keynesian stimulus for China's slowing economy.

DEMUTUALISATION PLANNED ENHANCING ROLE AS INTERNATIONAL FINANCIAL CENTRE □ TIGHT TIMETABLE FOR APRIL 2000 LISTING

HK to merge stock and futures exchanges

By Louise Lucas and Peter Montagnon in Hong Kong

Hong Kong is to merge its stock and futures exchanges and spin the new entity off on the stock market in a bid to enhance its credentials as an international financial centre, Donald Tsang, financial secretary, said yesterday.

The move, which is in line with global trends, could prove contentious in Hong Kong where the stock exchange retains vestiges of its former club-like mentality and disputes with the futures exchange – over anything from stock options to trading hours – do not augur well for a harmonious single entity.

However, Lee Hon-chiu, chairman of the Hong Kong stock exchange, said he was confident that the body's members would support the proposal. Ultimately it would benefit brokers: Andrew Sheng, chairman of the Securities and Futures Commission, the industry regulator, said a listing would enable the single exchange to raise capital to fund technological developments and upgrade the clearing system.

The government has laid out an aggressive timetable, which could see shares in the newly merged entity trading as early as April next year. For its part, the stock exchange is racing to meet the deadlines: it has already selected a financial adviser, and will formally make its appointment by tomorrow.

Bill Kwok, acting chairman of the Futures Exchange, said the seven-month time frame would be "exacting", but added that the body was "committed to contributing to any structural changes that will assist Hong Kong to enhance its role as an international financial centre".

Both bodies, and the clearing houses which will also be rolled into the single entity, must first calculate a valuation of their respective assets, and then agree a share ratio swap. These arrangements are to be agreed within seven months.

Mr Tsang said the move would modernise the financial structure and make the exchanges more efficient, market-driven and better able to respond to competition. Alec Tsui, chief executive officer of the stock exchange, said benefits included economies of scale, especially on technological investments and resolving the role conflicts of the exchanges. Rafael Hui, financial services secretary, said a restructuring would also enhance corporate governance.

Initially the new listed exchange will have a monopoly on stock and futures trading in the territory, but the government expects this will be dissipated in time, especially with the rise in internet broking.

Demutualisation of the Hong Kong stock exchange has been mooted before, but was previously rejected by the government as being unnecessary. However, this view changed in August – when the government turned share buyer and gained first-hand experience of how exchange members operate – and when preliminary discussions began, according to Mr Lee.

Also influencing the decision were worldwide trends. Exchanges in Frankfurt, Stockholm, Amsterdam, Italy and Australia have demutualised; while exchange mergers have been taking place in the US. Most recently, Singapore announced its intention to merge its exchanges.

Brokers were yesterday guarded in their support of the move, which strips them of their membership rights. But some noted ownership rights have been eroded since reforms of the stock exchange began after the market crash of October 1987.

"Now owners of these assets will at least get some compensation," said Carlton Poon, managing director of Worldsec International, a Hong Kong-based brokerage.

Calls for 'Jihad' in Jakarta

By Sander Thoenes in Jakarta

More than 1,000 Moslem students protesting in Jakarta yesterday called for a Jihad (Holy War) against Christians, renewing fears that religious clashes in Indonesia, so far localised, could spread.

The students reacted to reports, denied by police, that officers killed four Moslems in or near a mosque on the island of Ambon, where some 200 people have died in recent clashes.

Some 2,100 more troops have recently arrived in Ambon, including marines who have been more effective than other soldiers in quelling unrest. Violence on the Maluku islands has sent thousands of mostly Moslem migrants fleeing, raising fears that they could take revenge on the Christian minority there. Ujung Pandang and other local towns have remained calm.

The reported mosque shooting seems to have angered Indonesians more than previous clashes. Military spokesmen said two policemen and one soldier were being investigated, and the local police chief was sacked yesterday.

The military also announced it would send more troops to East Timor, reversing a pledge to pull out gradually, on the grounds that civilians who opposed independence were under attack from pro-independence groups.

Portugal accused Indonesia of "hypocrisy" in offering East Timor independence while boosting troop presence but diplomats said fears of retribution were real.

Hun Sen rules out tribunal

Hun Sen, Cambodia's prime minister, yesterday appeared to rule out an international tribunal to try Khmer Rouge leaders for their role in the 1970s "killing fields" reign of terror. Reuters reports from Phnom Penh.

Mr Hun Sen said efforts to bring leaders of the Khmer Rouge to trial could create panic among members of the group who have already surrendered and shatter Cambodia's recently found peace.

The prime minister said in a letter to Kofi Annan, UN secretary-general, that Cambodia was considering a South African-style truth and reconciliation commission to investigate almost 30 years of conflict since 1970.

"We have never rejected the accountability of the Khmer Rouge leaders for the crimes of genocide in Cambodia," Hun Sen said in the letter, released by the government in Phnom Penh.

"We just want...to caution that any decision to bring the Khmer Rouge leaders to justice must also take into full account Cambodia's need for peace, national reconciliation and economic development."

The UN report has not been released but the New York Times said it proposed an international tribunal to try 12 former Khmer Rouge leaders and a separate Cambodian truth commission to consider all other cases.

The report was drawn up by a team of legal experts appointed after a 1997 request from the government for help in setting up a tribunal to investigate the 1975-79 period of Khmer Rouge rule when an estimated 1.7m people were killed.

ASIAN HOPES 'HARD NEGOTIATING AHEAD'

Disney eyes a theme park breakthrough

By Louise Lucas in Hong Kong and Christopher Parkes in Los Angeles

Hong Kong emerged yesterday as a front-runner in the race between Chinese cities to become the first to host a Walt Disney theme park: a multi-billion dollar investment which would shore up its important tourism industry.

Donald Tsang, financial secretary, confirmed that long-rumoured talks were under way, but warned "much hard negotiating lies ahead" on an outline plan to build a park on Lantau, the outlying island which is home to Hong Kong's new airport.

For Disney, a park in China would represent the achievement of a goal deferred for years by political and financial obstacles, the most serious of which was removed last October when Michael Eisner, the US group's chairman, visited Beijing.

That led to the lifting in January of a two-year ban on the distribution of Disney films in China. Last week, Robert Iger, one of the group's most prominent executives, was appointed to set up a new international division to foster growth overseas.

Disney's theme parks, in California, Florida, Tokyo and France, are its most consistent source of profits.

The company is a demanding partner and the Hong Kong government will probably be called on to contribute substantially to the venture, which will require heavy infrastructure investment including access.

Observers said the government might provide the land. Guy Ellis, a partner at Price Waterhouse Coopers, noted that HK$30m (US$3.9m) had been set aside for reclamation at Penny's Bay, the expected site of the park.

But Mr Tsang stressed that a Disney project would bring substantial economic benefits to the territory, including the creation of thousands of jobs and creating applications for technology.

Other tourism proposals in Mr Tsang's budget yesterday included consideration of a new cruise ship terminal, a dolphinarium and a "Fisherman's Wharf" retailing and restaurant entertainment centre in Aberdeen, a coastal strip renowned for its floating restaurants and incidents of cholera.

The tourism downturn since the July 1997 handover of sovereignty has been one of the most severe economic problems dogging Hong Kong. The Asian crisis, and currency shifts that have rendered Hong Kong sharply more expensive, have cut deeply into numbers of Japanese tourists, traditionally the biggest spenders.

Tsang puts stress on boldness of plans

By Rahul Jacob in Hong Kong

Donald Tsang, Hong Kong's financial secretary, said he had chosen an electric turquoise for the cover of this year's budget because the colour gave "a sense of boldness".

Plenty of boldness was certainly needed as the government tries to turn around an economy that contracted 5 per cent last year by boosting spending while trying to contain a rare budget deficit.

Initiative was also needed to wean the government off its addiction to revenues from property, which in some years have accounted for about a third of its income.

The budget Mr Tsang presented yesterday showed plenty of boldness, striking out in several directions. He confirmed that the government was close to an agreement with Walt Disney to set up an amusement park in Hong Kong, which would be a welcome shot in the arm for the suffering tourism business. The government also said it was working with the private sector to develop a HK$13bn (US$1.7bn) "Cyberport" high-technology project to attract information technology companies to Hong Kong.

"The whole thrust of this budget is to create new opportunities," Mr Tsang said. In addition to a raft of financial market reforms, the government said it planned to sell shares in the Mass Transit Railway, the local underground. And to help lift the spirits of consumers – and retailers – Mr Tsang declared the government would be mailing cheques to taxpayers, amounting to a 10 per cent rebate on the taxes they paid last year.

Dong Tao, an economist with Credit Suisse First Boston, said that the Disney project would result in HK$20bn in additional construction spending. He estimates the project would create 10,000 to 15,000 jobs with multiplier effects of an additional 80,000 in service businesses.

Martin Lee, head of the Democratic party, said: "All the political parties support this. Who could say no to Donald Duck?"

The government's gambit to get Hong Kong into the information technology industry fast lane by creating a technology business park is more controversial. The HK$13bn project had already attracted interest from Sybase, Yahoo and International Business Machines, the government said. However, Hong Kong is playing catch-up to Singapore and Taiwan. It is also not clear high technology is where its talents lie.

Mr Tsang may have tried to do everything at the same time, but critics feel he has not done enough. Local legislator Christine Loh criticised the government for not announcing any moves to increase competition in the economy in sectors such as real estate, which would help reduce its high costs.

The territory's steep recession made any moves to increase taxes and move to a consumption-based tax this year a non-starter but Mr Tsang gave few clear signals to suggest that the government was serious about moving in that direction. Its unusual budget deficits of HK$33bn this year and HK$36.5bn in 1999-2000 are a sign the government needs to diversify its revenue stream. Less than 10 per cent of the population pay the top rate of an effective 15 per cent. Many observers argue that Hong Kong needs to raise income taxes to reduce its dependence on real estate revenues.

"This budget is all about managing sentiment, but economies are driven by fundamentals," said Andy Xie, an economist with Morgan Stanley Dean Witter. Hong Kong needs a new growth engine, Mr Xie said. Its reliance on a booming property market to keep domestic spending climbing and the fat margins it made from processing China's trade are both under serious threat.

Donald Tsang showing plans for a "Cyberport" to attract high-tech companies AP

Government to keep a third of equity raid shares

By Peter Montagnon

The Hong Kong government is to retain about a third of the HK$150bn (US$19.4bn) worth of shares it bought in last year's controversial stock market intervention, as a long-term investment. It will also step up its holdings of international equities under new guidelines announced yesterday for managing its reserves.

Under the guidelines, which aim to achieve a return sufficient to maintain the real value of the funds, 20 per cent of the territory's HK$910bn reserves are to be invested in equities, but the proportion invested in the Hong Kong market would be held to 5 per cent of total reserves. This means the government's local holdings will be sold down to HK$46bn.

Donald Tsang, financial secretary, said it could take up to 10 years to complete the sale, which would be executed in an orderly manner that avoided market disruption.

Several investment banks have submitted proposals on how to conduct the sale which include the possibility of floating bond issues convertible into the shares, as well as share buy-backs by the companies involved. HSBC, Hong Kong's largest company by market capitalisation, recently announced plans to seek shareholder authorisation for buybacks, and bankers say many other companies were concerned about blocks of government-owned shares being sold to possible suitors.

The government would be a passive investor and would not intervene in the affairs of companies in which it has a stake, Mr Tsang said. Portfolio managers would track the Hang Seng index with half the total and be allowed "moderate deviation" from the index with the rest.

Under the new guidelines, holdings of international equities would increase to 15 per cent of total reserves from 10 per cent at present. The guidelines also provide for an increase to 80 per cent from 70 per cent of the total investments held in US dollars and a corresponding decline in holdings of yen and European currencies.

A Hong Kong Monetary Authority spokesman said this did not reflect a particular view of market trends but, given volatile markets, it was deemed prudent to keep a substantial holding of US dollars which are used to back the local currency.

Japan takes big step on birth pill

By Paul Abrahams and Naoko Nakamae in Tokyo

Japan took a huge step forward in licensing oral contraceptives yesterday when a health ministry committee for the first time accepted that the low-dose pill was safe.

Following this ruling, the ministry of health and welfare's central pharmaceutical affairs council is expected to recommend the pill for approval in June.

"From our understanding, the pill has been medically accepted. It appears to have been cleared on grounds of safety, efficacy, and environmental issues.

"No link has been established with an increase in sexually transmitted diseases," said the chief executive of a drugs group in Japan whose oral contraceptive is awaiting approval.

"The champagne is in the fridge, but I haven't opened it yet."

The main outstanding issues include prescribing guidelines and the wording of the accompanying literature. Drugs companies indicated they might be able to launch the pill as early as August.

The market is unlikely to be large, at least initially. The cost of the pill will not be reimbursed and patients will need regular and expensive check-ups.

A recent survey indicated that only about 7 per cent of Japan's 30m women of child-bearing age (about 2.1m) were interested in using the pill.

Pricing has not been decided, but in Europe and the US a month's supply costs Y500-Y2,000. That indicates an initial market of Y13.65bn-Y54.6bn ($115m-$460m).

Western pharmaceutical companies seeking licences for oral contraceptive drugs include Schering of Germany; Organon, a subsidiary of Akzo Nobel; Wyeth-Ayerst, a subsidiary of American Home Products; Monsanto, and Janssen, a Johnson & Johnson offshoot.

Japanese companies involved include Dai-Ichi Pharmaceutical, Yamanouchi, Teikoku Hormone, and Meiji Seika.

Japan remains the only member of the United Nations where low-dose oral contraceptives are unavailable, despite submission of the necessary clinical data nearly nine years ago.

High- and medium-dose pills are available, officially only for menstrual disorders, and have been awaiting approval for contraceptive use for 30 years.

The ministry yesterday refused to explain or comment on why it had taken so long to approve the oral contraceptive.

Malaysia secures Japanese loans

Malaysia yesterday secured Y107.7bn ($890m) in yen loans from Japan, reaffirming Tokyo as Malaysia's main lender in its bid to recover from a severe economic downturn, T. J. Tan reports from Kuala Lumpur.

The loans have repayment periods of between 25 and 40 years and interest rates of 0.75 per cent to 1.7 per cent. This is the first time since 1994, when it borrowed Y62bn for the construction of the new Kuala Lumpur International Airport, that Malaysia has borrowed money from Japan under its low-interest Overseas Economic Co-operation Fund.

The funds will be used in part for building a dam, refurbishing a power plant and expanding a university. Developing infrastructure and the education sector is part of a M$12bn (US$3.2bn) fiscal stimulus package to kickstart the economy.

Since the Asian crisis began in July 1997, Malaysia's borrowings from Japan have included Y74bn in commercial bank loans largely guaranteed by the Japanese government and $500m from the Ex-Im Bank. These funds are part of the $5bn Malaysia is seeking from Japan under the Miyazawa Plan to aid countries in the region.

GOOD FRIDAY AGREEMENT *UK GOVERNMENT LOOKS TO PRESIDENT TO HELP BREAK DEADLOCK WHEN LEADERS VISIT WASHINGTON*

Ireland peace hopes focus on Clinton

FT Reporters in London and Dublin

The UK government is hoping President Bill Clinton can help break the impasse over the Northern Ireland peace process when the region's political leaders visit Washington this month.

Mo Mowlam, chief Northern Ireland minister in the UK government, acknowledged yesterday that she is unlikely to begin the transfer of powers to the region's new assembly – due next week – until the end of the month.

The peace process has stalled over the insistence of the Ulster Unionist party, the biggest pro-British party in Northern Ireland, that the Irish Republican Army must begin handing in its weapons before Sinn Féin, its political wing, can take seats on the power sharing executive. Sinn Féin says IRA decommissioning is not a precondition to the party joining the executive under the peace accord.

David Trimble, Northern Ireland's first minister and UUP leader, and Gerry Adams, Sinn Féin president, will visit the US for St Patrick's day celebrations at the White House on March 17.

"I would like to get March 10 in place, but I will talk to the parties first and see what they want because it is up to them to reach some kind of agreement," Ms Mowlam said. "But I don't want it stretching on too long. I would look towards the end of the month perhaps, but I have not given up yet."

The non-sectarian Alliance party said Ms Mowlam should delay the transfer of powers until the political leaders return from Washington.

"We would be of the view that there is no need to rush into devolution," said Sean Neeson, Alliance leader. "To ensure that we do move forward, we must use our time in America to resolve this issue and pro-agreement parties must get round the table on their return and work out a formula which will enable the button to be pushed on the devolution on powers."

The UUP rejected a suggestion by Seamus Mallon, Northern Ireland's deputy first minister, that Sinn Féin could take its seats if the IRA produced a timetable for handing over its weapons.

But Michael McGimpsey, a UUP security spokesman, said Sinn Féin could join the executive within hours of a start to IRA decommissioning.

● Ms Mowlam announced that the jailed members of the Irish National Liberation Army, a violent and often faction-ridden military wing of the Irish Republican Socialist party, would now qualify for the early release programme because the group's ceasefire had held for six months. She urged the INLA to make an early start on decommissioning.

She also proscribed the Orange Volunteers and the Red Hand Defenders, two recently formed anti-nationalist paramilitary organisations opposed to the peace accord. Both have been linked to a series of attacks on Roman Catholics.

Misery of London travel soon to be more expensive

By Deborah Hargreaves in London

Travelling on the London Underground railway is already a gruelling experience thanks to notoriously late, dirty and crowded trains. Plans to attract private sector capital promised a renaissance but passengers discovered in the latest service announcement that their journeys will become even more expensive.

The network – known to Londoners as the Tube – dates back well into the 19th century and was one of the world's first metro systems. The government hoped it would become self-financing after 2000, when it is partially privatised. But ministers now admit they will need to continue subsidies.

Glenda Jackson, the Oscar-winning former actress who is now London's transport minister, told MPs that ticket prices will rise faster than inflation. This is in contrast to fares on the fully privatised national rail network, which are restricted to rises of one percentage point below inflation.

A recent study of metro systems in four leading cities found London was the second most expensive and least punctual after New York, which operates round-the-clock. Tube trains stop running soon after midnight.

The report by the London Research Centre – and its counterparts in Paris, Tokyo and New York – found the Tokyo metro best on punctuality although overcrowding was severe. Paris offered the cheapest fares because of a business levy to subsidise transport.

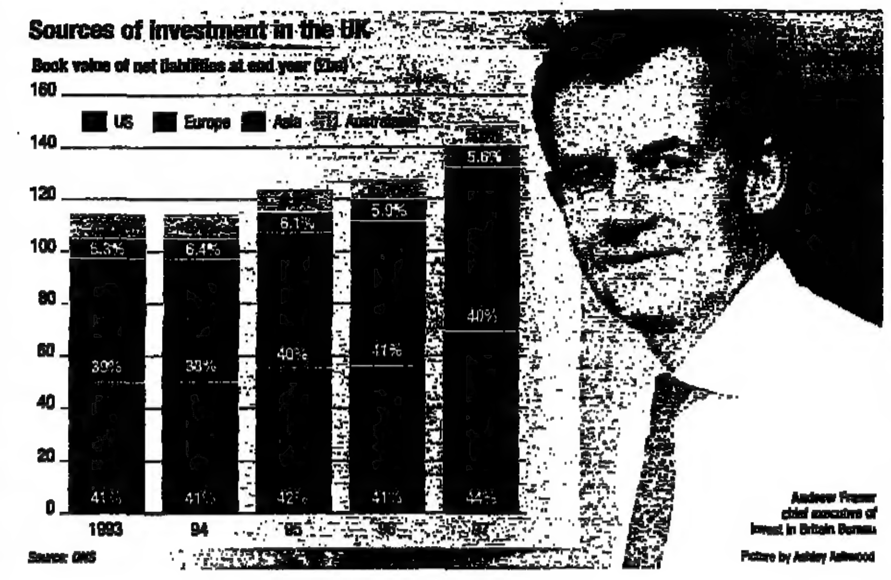
State-owned London Transport, which runs the Tube, said its practice for several years had been to raise fares by one percentage point above inflation. "This hasn't frightened people off," LT said. "The government will be putting a lot of money into the Tube over the next few years. It is reasonable that the fare-paying customer should contribute to the funding of these improvements."

But Stephen Glaister, professor of transport and infrastructure at Imperial College, London, said: "Higher Tube fares are not consonant with an integrated transport policy which seeks to encourage public transport."

The £7bn ($11bn) partial privatisation of the Tube involves the sale of three separate 30-year concessions to manage and maintain the infrastructure. Train operations will continue to be run by a publicly-owned London Underground.

"Our aim is to avoid paying further grant if possible but that is not a pre-requisite of concluding the public-private partnership," Ms Jackson said.

The Four Cities Transport study said: "Given the age of London's metro system, considerable investment is needed. ... even to maintain the current level of service."



Source: ONS

Andrew Fraser chief executive of Invest in Britain Bureau

Picture by Ashley Ashwood

Tactics change in the battle to attract inward investment

Economic crisis in Asia and the launch of the euro have helped transform the rules of engagement. **Kevin Brown** reports

Britain has had 25 years of good news headlines about inward investment from Asia but the battle for big projects has entered a new phase.

The source and nature of direct investment has changed markedly and, though the UK continues to win a big share of the pie, the tactics required to attract it are being re-formulated.

● The era of big greenfield investments providing thousands of jobs on a single site is over. Most direct investment is now by companies acquiring existing capacity, extending older plants or establishing research sites and corporate headquarters.

● The focus of investment is moving to continental Europe and North America; the proportion coming from Japan, Korea and Australia has declined.

● *The launch of the euro in January has put pressure on the UK to make sure potential investors are not scared off by currency complications.*

Andrew Fraser, chief executive of the Invest in Britain Bureau, the inward investment agency run by the Foreign Office and the Department of Trade and Industry, says it is becoming harder to attract big greenfield investments because most of the big manufacturers that might want to use the UK to access the European market have already done so.

"The truth is that the big players are already here," he says. "In many industries, we have overcapacity in Europe, so it is very hard to attract absolutely new greenfield manufacturing."

Marketing efforts are aimed at stimulating follow-on investment by big companies and encouraging suppliers to follow their customers to the UK. Follow-on investment depends on the original investors reaching the point at which their production is high enough to make the cost of local production worthwhile for suppliers.

Investors progress towards that point at different rates.

The era of big greenfield investments providing thousands of jobs on a site is over

But the strategy is having some success. Peugeot, Honda, Toyota and Nissan have announced expansions recently and Peugeot's suppliers are beginning to invest locally.

Establishing the source of inward investment is difficult because of distortions caused by investments channelled through the Netherlands Antilles, which counts as Dutch, but are mostly by Japanese and American companies.

Investment from continental Europe is up from 39 per cent of the total to 40 per cent over the past five years for which official figures are available.

If the Dutch figures are excluded, European investment is rising fast – from 24 per cent of total stock in 1993 to 29 per cent in 1997. Investment from France, for example, increased by 53 per cent between 1996 and 1997.

Asian investment is in decline. Korea, once an important source, is rapidly disinvesting in the wake of economic crisis. Australia remains a big investor.

But the biggest threat to investment in the longer term might turn out to be exclusion from the euro-zone. Investors continue to see Britain as a low-cost gateway to the European Union's single market. But all the signs are that they want to see the government preparing for entry.

Officials are reluctant to discuss the long-term impact of an extended or permanent UK exclusion. They, like their ministerial bosses, see the subject as a political *minefield that is best* avoided.

Mr Fraser admits only that "there is no doubt that investors would welcome Britain being part of the euro, provided the chancellor's five economic tests [on convergence with the euro-zone] are met". Officials clearly believe it would be easier to attract investment from inside the euro-zone.

The DTI has begun negoti*ating inward investment* grants in euros for those companies that want them. But the message from investors appears to be that half measures may not be enough if Britain wants to keep its place at the top of the investment league.

NEWS DIGEST

MONETARY POLICY

Central bank leaves interest rates unchanged

The Bank of England, the UK central bank, yesterday left interest rates on hold for the first time in six months, raising hopes that the fabled "soft landing" for the UK economy may be within reach. The decision caused a strong blip in sterling against the euro and the dollar, as City of London traders were forced to adjust their calculations for the future path of UK monetary policy. Analysts had generally expected the Bank's monetary policy committee to cut the official rate from 5.5 per cent. But the impending national Budget, to be announced on Tuesday – and signs of a slowdown without recession – may have lead the Bank to call a halt to further rate reductions. The decision was greeted with dismay by a cross-section of business opinion. The Confederation of British Industry, the employers' lobby, and the British Chambers of Commerce both condemned the Bank for ignoring UK manufacturers and exporters. **Richard Adams and Alan Beattie, London**

Comment, Page 21; Currencies, Page 25

MILLENNIUM

Airports expect normal service

About 87 per cent of BAA's most critical UK airport systems have been made "year 2000 compatible", the company said yesterday. BAA operates 12 airports, including London Heathrow and Gatwick. Managers are on track to meet their March 1999 target and expect airports to operate "as usual" during the millennium holiday. Systems classed as critical include runway lighting and passenger security screening. Non-critical systems such as lifts, lighting and heating are not so prepared. About one-third of BAA systems needed work. **Sathnam Sanghera, London**

PENSIONS

Funding review launched

The government yesterday launched a wide-ranging review of the minimum funding requirement, a solvency standard which came into force less than two years ago. The requirement, which forces pension funds to match their liabilities to their assets, has been heavily criticised by investment and pension fund professionals. It was designed to safeguard pension assets following the scandal involving the Robert Maxwell pension funds. The requirement has been criticised for a lack of flexibility and for encouraging pension schemes to invest in bonds rather than higher yielding equities.

Stephen Timms, the new pensions minister, said the review, expected to take up to a year, would be "thorough and wide-ranging". The review is to consider scrapping requirement altogether.

One alternative could be for the industry to finance a fund of last resort. **Jane Martinson, London**

DIGITAL TELEVISION

Network to offer 'pay-for' films

On Digital, the digital terrestrial television service owned by Carlton Communications and Granada Group, is to offer pay-per-view films and sport for the first time through a deal with a broadcasting consortium. S4C Digital Networks, a group partly owned by United News & Media, is to broadcast pay-per-view programmes on up to five of the digital terrestrial channels it controls from late this year. The deal establishes the first formal pay television link between the three biggest UK terrestrial television companies, which have started to work together in rivalling Sky Digital, the 140-channel pay service offered by British Sky Broadcasting, the satellite network in which Rupert Murdoch's media group is the biggest stakeholder.

Stephen Grabiner, chief executive of On Digital, announced the deal at a Financial Times conference in London. **John Gapper, London**

Mineworkers win ruling on 48-hour week

By Robert Taylor, Employment Editor

Mining deputies working for RJB, the mining company, won their case in the High Court yesterday that they do not need to work more than 48 hours a week if they do not wish to do so under European Union working time regulations.

The judge said the introduction of a 48-hour maximum working week was a "mandatory requirement which must apply to all contracts of employment" unless an employee agrees voluntarily to opt out of that legal obligation in writing. The company has been allowed to take its case to the Court of Appeal.

"This judgment is excellent news. It means that employers cannot force workers to put in more than 48 hours a week unless they have agreed," said John Monks, general secretary of the Trades Union Congress. "The judge has given the red card to Britain's bullying bosses."

But Mr Monks also said the judgment would "not be the last word on the working time regulations". He added: "Some employers will no doubt look for loopholes and Britain's unions must remain vigilant to guard against abuse. Our concern is that abuses will occur in non-union workplaces. Pressure ... will be used against employees where they have no union to call on." The judgment establishes that an employee who has not opted out of the right to work a 48-hour maximum week over a 17-week reference period, but has worked the maximum hours before the reference period has expired, may refuse to continue working until his average working hours over that period come down to the required level.

RJB had argued that the working time provision did not impose a right or an obligation as part of the employment contract.

The Institute of Directors said yesterday's judgment confirmed its worst fears that the working time directive would "impair the ability of employers to run their companies in the most productive and flexible way".

Herbert Smith, a City of London law firm, said last night that the *consequences* of the judgment were far-reaching.

N American groups in running for gas market role

By Andrew Taylor, Utilities Correspondent

Two north American companies are among seven shortlisted to operate a new independent gas trading market designed to prevent price manipulation by shippers. They are QuickTrade, of Canada, and Altra Energy Technologies, the Houston-based energy management software company.

The move follows problems last year in balancing supply and demand, which led to big increases in UK gas shipment costs.

The other groups on the shortlist are: the London-based International Petroleum Exchange; Cap Gemini, the management consultants; Sweden's OM Energy Solutions, the operator of the Nordpool electricity market; Sybase of the UK and Energy Settlement and Information Services.

Callum McCarthy, the UK energy industry regulator, proposes to remove the monopoly held by Transco, the company spun out of the former state monopoly that controls the flexibility mechanism ensuring supply matches demand.

An independently managed screen-based market is to be introduced to reduce the residual market balancing role of Transco, which owns the national gas pipeline network. Big customers have complained that on-the-day mechanisms to balance supply and demand have been been manipulated by some shippers taking advantage of pipeline constraints to boost prices.

Mr McCarthy says capacity problems last year at the St Fergus terminal, in north-east Scotland, added an extra £22m ($35m) to balancing costs and raised forward gas prices by about 1p a therm. The cost of balancing supply and demand is currently spread equally among all shippers, some of which have complained that rivals have been taking advantage of the system to boost their own revenue.

The proposals would establish a secondary market for trading on-the-day capacity, more flexible trading rules and improved pricing that better reflects the costs of shipper imbalances.

● All businesses from next month will be able to choose another power supplier other than their existing regional electricity company, the industry regulator, said yesterday.

The introduction of competition for all 24m domestic customers is to be completed by June. The regulator said by next month 20m small business and domestic customers would be able to change suppliers.

CINEMA

Family party takes a Danish pasting

Nigel Andrews finds incest and murder on the birthday menu

Something is still rotten in the state of Denmark. But as Danish filmmaker Thomas Vinterberg's darkly pungent comedy *Celebration* proves – already hurrah'd with a Cannes Special Jury Prize and European Best Director award – there is good and bad news in putrefaction. Compost heaps are unpleasant to live near, let alone in, but very good for growing things. Culture, like horticulture, can thrive on stimulating decay.

Picture the scene. A country mansion is being converged on by motorised guests. One driver passes his brother on foot and offers a ride, ordering his own kids and disgruntled wife to walk the rest of the way. (First of many funny-nasty anti-social acts.) Up at the house 60-year-old papa, a wealthy businessman, awaits his birthday banquet. It is one he will never forget.

The movie was shot on video, which explains why it resembles something you would apologise for if showing it as a home movie. The queasy look enhances the queasy subject matter. Hand-held camerawork, blobby colour and whirry outlines – a seaside Munch painting come to life – are perfect for a story in which celebration turns to social immolation and the birthday baked meats furnish forth the familial apocalypse.

Briefly: the toast-proposing number one brother (Ulrich Thomsen) has a speech up his sleeve. And although, after tapping wine-glass with knife, he jokingly offers his father a choice of two – does he want the speech on green paper or yellow? – the gist is that papa sexually abused his children and the company, to its consternation, is about to hear of it.

Celebration has been accused of being a one-joke movie. You build to the cataclysm, enjoy it, then wind down from it. But the charge is unfair: the whole film is about unravelling social fabrics. The spirit of Luis Buñuel's *Discreet Charm* Bunuel, even of Jean *The Maids* Genet, moves through this house where sin-haunted masters and mistresses (including, or rather excluding, one suicided sister) are ministered to by a resentful kitchen staff. "Let's steal the guests' car keys!" proposes the cook at one point, while above-stairs a pretty waitress just given the heave-ho by a son and heir heaves a bowl of soup straight into his lap.

CELEBRATION
Thomas Vinterberg

BELOVED
Jonathan Demme

THE 39 STEPS
Alfred Hitchcock

Vinterberg specialises in hysterical straightfacedness. When not sure if we should laugh or frown we find ourselves doing both. And when we assume that comedy and cautioning comprise the full tone-range we are startled by the sight of the speech-making brother starting to weep. "Here's to the man who killed my sister – to a murderer," he blurts out Hamlet-like to a Claudius papa. (More state-of-Denmark echoes.) Before sonny can recover he has been thrown out of the front door. And before the guests can recover, helped by granny singing a sweetly dotty song about birds and woods, like a senior-citizen Ophelia, sonny is back with more frontline incest news.

Celebration was made as part of the "Dogma 95" programme. This Quixotic moviemaking treatise cosigned by Vinterberg, Lars Von Trier (*Breaking The Waves*) and other messianic Danes vows to forswear unreal or impure practices such as sets, artificial lighting, camera tripods and shooting scripts.

Cheap is good, cheaper is better. Hence the video; hence too the sense of a cast and crew reacting with nervous serendipity to a plot in which literally anything could happen. (Vinterberg even wrote in a late role for a black actor-friend who plays a guest subjected to racial humiliation.) This is a party few would want to attend in real life but few could possibly resist from the safe, voyeurist distance of a movie seat.

*

What ever goes on in Hollywood's brain, assuming it has one? *Beloved* is a nearly three-hour film of a novel that can seem, in the best sense, like five minutes. Toni Morrison's Pulitzer Prize-winning book about an ex-slave visited by the ghost of her dead daughter, disguised as a live flesh-and-blood waif, is not an easy read. You could fall into its stream-of-consciousness prose and drown. But when you finish the book it seems simple, gemlike, reverberant, as concentrated as a *haiku*.

Very little "happens". Sethe the single mother (played by Oprah Winfrey in the film) is wooed and bedded by fellow ex-slave Paul D (Danny Glover). Relationships grow intricate, even sinister, with the arrival of Beloved, who becomes an instant soulmate with living sister Denver. The townsfolk then get suspicious and – well, that's about it.

Yet watching this movie directed by Jonathan Demme (*The Silence Of The Lambs, Philadelphia*) is like sitting in eternity's waiting room reading old copies of Civil Rights Illustrated. In interiors that would have even Rembrandt shouting for more light, the plot plods on and on. Everything that Morrison left inspirationally unsaid the film says. And Oprah Winfrey, the chat show diva cum Oscar nominee (*The Color Purple*) who has nursed her dream of filming the book for 11 years ("I felt that *Beloved* was part of the reason I was born") plays Sethe, for the most part, as if frozen in the headlamps of high culture.

Perhaps she was thrown by being told she was too emotional in early filming by both Demme and Morrison. But Winfrey is no good at being anything else. Give her a tears-and-quivering-face aria and she provides the goods. Asked to suggest hidden or held-back feelings, the essence of this character, she is a blank face waiting to be filled. The movie itself is never sure whether to be pious social history or American Gothic. A little more gingerbread on Sethe's woodframe hilltop house would turn it into Norman Bates's place; the lynching flashbacks are sulphurous melodrama as if from another movie (*Mississippi Burning* or *Betrayed*); and Beloved's first low, raspy utterances are out of *The Exorcist*.

The most laudably credible character is Kimberley Elise's Denver, who seems to step straight from the book's subtly spooked pages. But even she, gratifyingly dominant in the last act, is sidelined by a glutinous finale in which Sethe's dead preacher mother-in-law is re-invoked in flashback, chanting "Love your heart!" over and over to a forestful of adoring black folk, while celestial choirs infest the soundtrack. Was Toni Morrison still in the cinema when this scene unspooled at the premiere? Or had she fled in terror?

*

After this, Alfred Hitchcock is just what the therapist ordered. *The 39 Steps*, in a restored print, starts a 16-film Hitchcock season at the Barbican. The 1935 film is part thriller, part romantic comedy, all blithe assurance. Robert Donat's gentle charmer of a Hannay runs around the British Isles from Piccadilly to Scotland, with Madeleine Carroll handcuffed to him in one of the cinema's earliest advertisements for recreational bondage.

They run into sheep (who ate, we are told, the soundstage scenery), into "Mr Memory" (other entertainers have died at the Palladium but none so memorably), and Godfrey Tearle and Peggy Ashcroft both proving that Hitch could get perfectly-modulated screen performances even from theatre-folk. As for the hilarious scene where a fugitive Hannay gatecrashes a meeting hall and has to masquerade as guest speaker, Graham Greene stole it shamelessly for *The Third Man*.

Norwegian film visits all parts of the country from this week, though we must hope the standard is better than the previewed *Schaaa*, a short-on-drama, long-on-artiness tale of delinquent teenagers. At the National Film Theatre, Burkina Faso director Idrissa Ouedraogo is celebrated. He made *Tilai*, *Samba Traore* and the superb *Yaaba*, films that paint Africa in subtly resonant colours: scenic, mythic and psychological.

A party few would want to attend in real life: scene from Thomas Vinterberg's 'Celebration'

OBITUARY DUSTY SPRINGFIELD

Pop diva with a difference

Dusty Springfield, who has died at the age of 59, was a successful British soul singer of the 1960s who ended up famous for being famous. Quite why her career took such a nosedive in the early 1970s is hard to say – perhaps it was because of her maverick personality.

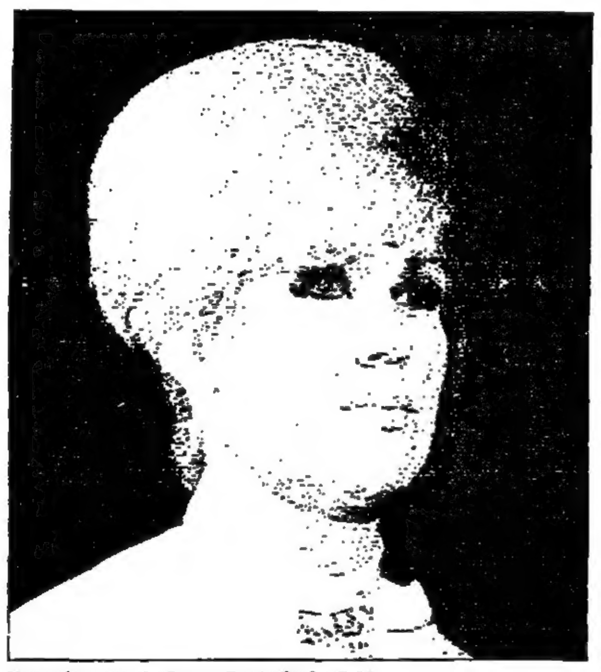
Born Mary O'Brien, Dusty Springfield first came to the public notice singing in her brother Tom's folk-pop band, the Springfields: but her powerful, bluesy, "black" voice was too big for group singing and by 1963 she had gone solo and produced one of her biggest hits, "I only want to be with you".

For the next few years Dusty Springfield could do *no wrong*. With her extraordinary appearance – huge, panda-black mascarad eyes and gold bouffant hairstyle – her mighty voice and her clever choice of material, she was a consistent winner of awards. She topped the charts in 1966 with the anthemic "You don't have to say you love me".

But Dusty Springfield became dissatisfied with London and the pop scene. Her interest was in more progressive music, in black music. She did not want a career hosting her own Saturday-night TV show. More importantly, she was bored with hiding her bisexuality.

She moved to the US, first to Memphis, where the successful album, *Dusty in Memphis*, spawned the hit "Son of a Preacher Man", then to Los Angeles, recording occasionally but mainly hanging out with female tennis players. She earned a status both as a gay icon and a campaigner for women's rights: but her musical career seemed to be over.

She was rescued from obscurity by the Pet Shop Boys who in the late 1980s asked her to sing on their hit "What have I done to deserve this?" They then wrote the theme for the movie *Scandal* for her. She returned to the UK, but ill health prevented her second career taking off.



Not quite a tragic figure: Dusty Springfield

Dusty Springfield was unusual among the first generation of British pop stars in having a truly outstanding voice. Her shrewdly chosen hit songs are unforgettable. But she came to public attention in an innocent age, and her forthright opinions and reluctance to compromise closed doors.

In the US her idiosyncrasies went unnoticed, but so did her talent. Springfield pioneered the music of leading figures such as Randy Newman and Carole King and worked with such big names as Jerry Wexler, but she was too different to appeal to the broadest market. Dusty Springfield just avoided being a tragic figure but she hardly fulfilled her early promise.

Antony Thorncroft

MUSIC IN LOS ANGELES JOHN ADAMS'S 'NAIVE AND SENTIMENTAL MUSIC'

Fun, feel-good exhibitionism

The title of John Adams's new orchestral work, *Naive and Sentimental Music*, turns out to be descriptive in a way its composer did not intend. For naive, read simplistic and formulaic; *for sentimental, read manipulative and* shallow of feeling.

In a programme note for the world premiere, given by the Los Angeles Philharmonic under the work's dedicatee, Esa-Pekka Salonen, Adams declared his intention to write music that was, in the sense meant by Schiller, both naive (spontaneous) and sentimental (self-conscious, even self-referential). And as though Adams had not heard a note of Thomas Adès' music, to name only the most conspicuous naive composer among us, he cited the near-impossibility of writing truly individual orchestral music at the end of the millennium.

Something approaching pandemonium greeted the piece at the end of its second performance, which reportedly went smoother than the premiere, and US critics accorded the work an open-armed welcome. Co-commissioned by four orchestras and already scheduled for performance by a fifth, *Naive and Sentimental Music* is set to make a significant incursion into the repertoire. The only challenge it will face in the short term is finding interpreters as persuasive as Salonen and executants as keen on the work as the on form Los Angeles Philharmonic.

Adams's steps forward are clear and audible. In his most ambitious score since *Harmonielehre*, he manipulates a Mahler-sized orchestra with an experienced and skilful hand. His deployment *of smaller musical cells lends the work* an air of heightened concentration, as if the three-movement piece were more a grand mosaic than a single, sprawling canvas. Adams may still be riding the Ostinato Express, but he's driving it less obsessively and to more pointed expressive ends. The very fact that any four bars taken from the 48-minute whole would be immediately identifiable as Adams speaks more to a consolidation of compositional voice than to artistic stasis.

Something approaching pandemonium greeted the piece at the end of the second performance

Only the ideas themselves seem meagre. Impressively as Adams floats melodic cells between sections in the first movement, which shares the complete work's title, the material is hardly indelible or lasting in impact. The flute's opening figure sounds disarmingly like the phrase that introduces the Empress in *Die Frau ohne Schatten*, but nothing so transporting follows. Adams shakes it all up in a heady accumulation of off-kilter rhythms and polyrhythms, *until it* rocks out in a tumultuous but inconclusive crescendo.

The descending figure on open strings that introduces the second movement ("Mother of the Man"), which the composer calls "a gloss on Busoni's *Berceuse élégiaque*", delivers little more than an array of plangent sound-effects from plucked basses and harp, bowed vibraphone, bells and softly amplified acoustic guitar. Tugging and stabbing at long notes, and a *Das Lied*-like fade-out on an uncompleted melody, promote a dirge-like air, but music as elevating or touching as Adams wrote for the death of Klinghoffer never materialises.

The work ends with a bustling soundscape, "Chain to the Rhythm", that at its best boasts *Petrushka*-like colours, some expressive *riffs* and fanfares from brass. The Great Gate of Kiev meets Duke Ellington. It's fun, feel-good music, exhibitionist for the players and aerobic for Salonen. But if it delivers the promised "virtuoso surge of orchestral energy", it also leaves one surprisingly hungry.

Timothy Pfaff

INTERNATIONAL

Arts Guide

AMSTERDAM

OPERA
Netherlands Opera, Het Muziektheater
Tel: 31-20-551 8911
Die Zauberflöte: by Mozart. Conducted by Hartmut Haenchen in a revival of Pierre Audi's staging co-directed by Saskia Boddeke; Mar 5, 8, 10

BERLIN

OPERA
Deutsche Oper
Tel: 49-30-34384-01
Rise and Fall of the City of Mahagonny: by Kurt Weill, libretto by Brecht. New staging by Günter Krämer, conducted by Lawrence Foster, with designs by Gottfried Pilz and Isabel Ines Glathar; Mar 4, 11

COPENHAGEN

EXHIBITION
Statens Museum for Kunst
Henri Matisse: Four great collectors. Brings together works from what were once the greatest private collections of Matisse's art, made by two Russians, Morosov and Schukin, and two Danes, Tetzen-Lund and Rump. The show was organised jointly with the Hermitage Museum in St. Petersburg, where it opened last year; to May 24

EDINBURGH

EXHIBITION
Scottish National Portrait Gallery
Tel: 44-131-624 6200
John Ruskin: exhibition exploring the influence of the Victorian critic and theorist. Includes drawings, watercolours and photographs; to Mar 7

GLASGOW

OPERA
Scottish Opera, Theatre Royal
Tel: 44-141-332 9000
The Magic Fountain: by Delius. Conducted by Richard Armstrong in a new staging by Aidan Lang, with designs by Ashley Martin-Davis; Mar 4, 6

LONDON

CONCERTS
Royal Festival Hall
Tel: 44-171-960 4242
● City of Birmingham Symphony Orchestra and Chorus: conducted by Simon Rattle in works by Lutoslawski, Takemitsu and Adams. With guitar soloist John Williams; Mar 6
● London Philharmonic Orchestra: conducted by José Serebrier in a programme including works by Stravinsky, Piazzolla, De Falla and Rodrigo. With guitar soloist Slava Grigoryan and castanets soloist Lucero Tena; Mar 5
● Orchestra of the Age of Enlightenment: conducted by Mark Elder in works by Beethoven, Brahms and Liszt. With the Philharmonia Chorus, tenor Justin Lavender and *mezzo-soprano Jane Irwin; Mar* 7, 9

EXHIBITIONS
National Gallery
Tel: 44-171-839 3321
Orazio Gentileschi at the Court of Charles I: first-ever retrospective of the 17th century Italian painter, friend to Caravaggio, and Court Painter to Charles I. Includes a group of works from the Queen's House in Greenwich, sold after the king's execution and never seen together since; to May 23, then travelling to Bilbao

Queen's Gallery
Tel: 44-171-839 1377
The King's Head: organised to coincide with the 350th anniversary of the regicide, this biographical exhibition brings together images of Charles I from all stages of his life. Including Van Dyck's triple portrait, prints, medals and books, the show concludes by focusing on the iconography of the king as martyr; to May 3

OPERA
English National Opera, London Coliseum
Tel: 44-171-632 8300
Parsifal: by Wagner. Conducted by Mark Elder in a new staging by Nikolaus Lehnhoff, with sets by Raimund Bauer and costumes by Andrea Schmidt-Futterer. Cast includes Kim Begley and Jonathan Summers; Mar 6

MUNICH

CONCERTS
Philharmonie Gasteig
Tel: 49-89-5481 8181
● Bavarian Radio Symphony Orchestra: conducted by Lorin Maazel in works by R. Strauss and Couperin; Mar 4, 5
● Bavarian Radio Symphony Orchestra: conducted by Lorin Maazel in works by Mozart and Bruckner. With piano soloist Murray Perahia; Mar 10
● Munich Philharmonic Orchestra: conducted by Gianluigi Gelmetti in his own Prasanta Alma, and in Rossini's Petite Messe solennelle; Mar 9, 11

JAZZ
Philharmonie Gasteig
Tel: 49-89-5481 8181
BB King: performance by the blues guitarist; Mar 6

OPERA
Bayerische Staatsoper
Tel: 49-89-2185 1920
www.staatstheater.bayern.de
Katya Kabanova: by Janáček. Conducted by Paul Daniel in a staging by David Pountney, with sets by Stefanos Lazaridis and costumes by Marie Jeanne Lecca; Mar 5, 8

NAPLES

EXHIBITION
Museo di Capodimonte
Mattia Preti between Rome, Naples and Malta: first of three special exhibitions marking the 300th anniversary of the death of Mattia Preti (1633-1699), the southern Italian painter known as 'Il Cavaliere Calabrese'. The show emphasises the influence of Caravaggio, and includes *about 60 paintings and 30* drawings; from Mar 5 to Jun 11

NEW YORK

EXHIBITION
Metropolitan Museum of Art
Tel: 1-212-879 5500
www.metmuseum.org
Picasso: Painter and Sculptor in Clay. Seen last year at London's Royal Academy, this show brings together 175 ceramic works by Picasso, mostly created between 1947 and 1962; to Jun 6

OPERA
New York City Opera, New York State Theater
Tel: 1-212-870 5570
www.nycopera.com
● Lizzie Borden: by Jack Beeson. New production conducted by George Manahan in a staging by Rhoda Levine, with Phyllis Pancella in the title role; Mar 6, 10
● Madama Butterfly: by Puccini. Conducted by Guido Johannes Rumstadt in a staging by Mark Lamos first seen in November, with sets by Michael Yeargan; Mar 7, 11

PARIS

EXHIBITIONS
Musée d'Orsay
Tel: 33-1-4049 4814
www.Musee-Orsay.fr
● Edward Burne-Jones: major retrospective of the British pre-Raphaelite painter, which forms the mainstay of the museum's 'saison anglais'; from Mar 4 to Jun 6
● Gothic Revival: Architecture *and Decorative Arts of Victorian* England. Display examining the fascination of mid-19th century artists with medieval society, with particular emphasis on the nascent Arts and Crafts movement; to Jun 6

OPERA
Opéra National de Paris, Opéra Bastille
Tel: 33-1-4473 1300
www.opera-de-paris.fr
Macbeth: by Verdi. Conducted by Gary Bertini in a staging by Phyllida Lloyd, with designs by Anthony Ward. Cast includes Jean-Philippe Lafont and Maria Guleghina; Mar 5, 9

Opéra National de Paris, Palais Garnier
Tel: 33-1-43439696
www.opera-de-paris.fr
La Clemenza di Tito: by Mozart. Conducted by Ivor Bolton in a staging by Willy Decker with designs by John MacFarlane. Cast includes Theo van der Walt and Christine Goerke; Mar 4, 7

SEATTLE

OPERA
Seattle Opera
Tel: 1-206-389 7676
www.seattleopera.org
Vanessa: by Samuel Barber. Conducted by Yves Abel in a staging by Sharon Ott. The title role is sung by Sheri Greenawald/Ashley Putnam; Mar 5, 6, 10

STOCKHOLM

EXHIBITION
Moderna Museet
Tel: 46-8-5195 5200
www.modernamuseet.se
Aleksandr Rodchenko (1891-1956): major retrospective of the Russian Constructivist, who was one of the leaders of the post-revolutionary avant-garde; from Mar 6 to May 24

TV AND RADIO

● **WORLD SERVICE**
BBC World Service radio for Europe can be received in western Europe on medium wave 648 kHZ (463m)

EUROPEAN CABLE AND SATELLITE BUSINESS TV

● **CNN International**
Monday to Friday, GMT:
06.30: *Moneyline with Lou Dobbs*
13.30: *Business Asia*
19.30: *World Business Today*
22.00: *World Business Today Update*

● **Business/Market Reports:**
05:07; 06:07; 07:07; 08:20; 09:20; 10:20; 11:20; 11:32; 12:20; 13:20; 14:20.

At 08:20 Tanya Beckett of FTTV reports live from LIFFE as the London market opens.

SAMUEL BRITTAN
ECONOMIC VIEWPOINT

No end of work

An age-old fallacy is enjoying a renewed vogue. It is doing an immense amount of harm

A little book has appeared which deals with issues far more important than the euro, let alone the forthcoming British Budget. It is entitled *Millennium Doom* and is by Mauricio Rojas, a Swedish economic historian of Chilean origin (Social Market Foundation, £10). It demolishes the fallacy that because of technological advance or globalisation, or both, the end of work is at hand.

So far, the book has had almost no attention. On the other hand, populist tracts embodying this fallacy have been best-sellers in several countries – provoking Prof Rojas into his counter-attack.

The writers who have roused Prof Rojas include the Germans Hans-Peter Martin and Harald Schumann, authors of *Die Globalisierungsfalle* (The Globalisation Trap), Göran Rosenberg, a Swedish journalist, and above all the French Viviane Forrester whose *L'Horreur Economique* (Economic Horror) asserts that "for the first time the mass of human beings is no longer materially necessary". Even the US has spawned volumes such as Jeremy Rifkin's *The End of Work*, despite the creation of a record number of jobs there.

The fallacy is that economic development is inevitably leading to progressively fewer jobs. I was brought up to regard it as the "lump of labour fallacy" because it assumed that there was a fixed amount of work to be done, and if productivity increased, workers would simply be thrown on the scrap heap.

Prof Rojas has no difficulty in destroying this fallacy with a few simple statistics. Between 1980 and 1994 there were large increases in employment in almost all the leading industrial economies. The world's employed labour force grew by 630m people. China was creating over 15m net new jobs annually by the mid-1990s.

The exception was the European Union. But even in Europe experience was far from uniform. In the two decades to 1995, employment decreased slightly in Finland, Spain and Sweden. But it increased by over 20 per cent in the Netherlands and Austria, and by over 15 per cent in Greece and Ireland. Far from the computer age leading to jobless growth, the effect on employment of a 1 per cent rise in gross domestic product has actually increased in recent decades in the most advanced nations.

There is, of course, a less optimistic way of looking at it. To say that the "employment intensity" of growth has risen is another way of saying that productivity increases – conventionally defined as output per person – have slowed down. Indeed, Charles Jonscher, in his authoritative and readable book on information technology, makes a great deal of the disappointing failure of IT to bring about big increases in productivity. (*Wired Life*, Bantam, £14.99). You can complain about inadequate productivity or about jobless growth, but not both together. Not that this is likely to deter authors of anti-capitalist tracts.

It is also quite untrue that emerging countries are taking all the jobs. In 1994 the entire exports of south, south-east and east Asia accounted for only 3.4 per cent of the GDP of developed countries. Affluent countries still accounted for 80 per cent of world industrial output, roughly the same as in 1980. Indeed the growth of south-east Asian "tigers" has helped expand the global market despite the current financial crisis.

There is another fallacy lurking in the background. This is that in countries with relatively unregulated labour markets, such as the US, the growth of employment has been in low-skilled service jobs, which is sometimes called "the shoeshine economy". In fact, the most rapid job increases in the US have been in the highly skilled category.

Precisely because of this uneven increase in demand for workers, pay differentials have widened, creating well-known problems of income distribution. But *predictions of* impoverishment, based on an extrapolation of trends in the last 25 years, are unwarranted. In the course of economic development there have been alternating phases of both widening and narrowing income differentials.

Prof Rojas suggests two reasons for the popularity of end-of-work fallacies. The first is that the collapse of the Communist economies in 1989 deprived the opponents of capitalism of their main alternative model. They have instead taken refuge in a hopeless pessimism. Second, he believes Europeans have simply projected their own shortcomings on to the globalised world economy, rather than face up to the failures of their over-rigid forms of regulated capitalism.

Prof Rojas's explanation of what has gone wrong in Europe is to be found in another volume, *The Rise and Fall of the Swedish Model* (also published by SMF). This model was only an extreme form of a widespread European development. It involved a big state, big organisations and big capital which worked during the long period of "Fordist" mass production.

However, it is less suited to "quality-intensive centres of production and innovation, founded on techno-scientific and cultural and artistic excellence". The current combination of "senility, slackness and complacency is characteristic of societies which have experienced long periods of success in the past".

I suspect that the roots of the end-of-work fallacy go deeper. It rears its head when I hear bar-room pundits ask: "What will people buy when every household has two or three cars and every family has two or three holidays a year?" Most people simply do not have the imagination to appreciate the unlimited nature of human wants, let alone to realise that increased leisure – *if it is* voluntary – is itself a form of economic growth.

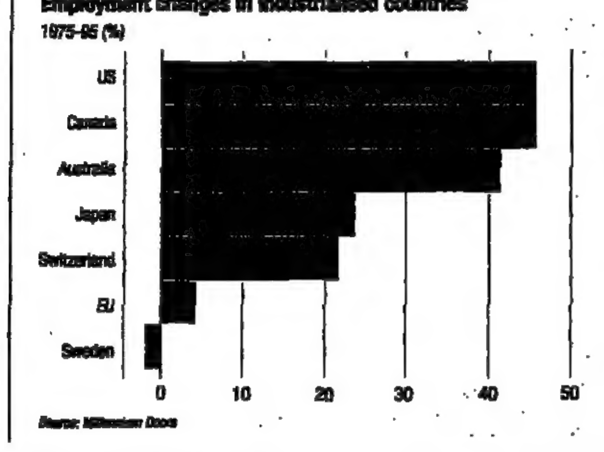
The fallacy is as old as history. During every technological revolution *there have been fears of* jobless growth. The arrival of wheeled carts led to an outcry from the drivers of pack asses. And there was a well-documented outcry in Elizabethan England against the rise of sheep farming. In the Agricultural Revolution of the 18th century farm machinery was smashed; and the later displacement of the hand loom by factory production was seen as a huge job destroyer.

Businessmen are even more inclined to fall into the trap than trade unionists, thinking it a sign of macho-realism to declare that high employment has gone forever. No amount of education seems proof against it. I have known distinguished physicists beginning discussions by asking "Where will the new jobs come from?" Even top-level economists such as John Maynard Keynes and his Cambridge sparring partner Denis Robertson occasionally succumbed.

The error does practical harm. Tony Blair, the British prime minister, is fighting for a reprieve for duty-free imports because of the jobs that are supposed to be involved. More seriously, politicians and officials back the arms trade because of their naive assumption that if workers at present employed in making weapons lost their jobs they would have nowhere else to go. In other words, people are being killed and maimed and unsavoury regimes upheld because of elementary errors of logic.

Millennium Doom is not a perfect book. It avoids theoretical argument and does not explain how new jobs are created as old ones are destroyed. This does matter. For we need to be able to reply to the objector who asks: "Even if past alarms have proved wrong, how do I know that we are not entering a new era in which jobs really will disappear?" Prof Rojas provides the answer.

Employment changes in industrialised countries
1975-95 (%)



Source: Millennium Doom

LETTERS TO THE EDITOR

Price US paid for economic fortune

From Mr Robert Bridge.

Sir, The criticism that Tony Blair, the UK prime minister, received at the congress of European Socialists and Social Democrats in Milan does not seem to be misplaced. While some form of consensus must be reached between the members of the European Union on how to stimulate employment growth while remaining globally competitive, it seems unlikely that this will peacefully transpire through pillaging social programmes.

The US-manufactured "culture of enterprise" Mr Blair is attempting to sell to the European socialist leaders has been lauded as being a viable response to Europe's 15m unemployed workers, and the heavy regulatory restrictions blamed for impeding further growth within the euro-zone. However, an American-style, *laissez-faire* programme, while brutally successful on the North American continent, will prove a terribly bitter pill to swallow in Europe.

European leaders should consider the price the US has paid for her present economic fortune; for some it is not unlike a Pyrrhic victory. While the market is demanding greater "flexibility" from its workforce today, union membership has fallen to their lowest levels ever recorded in the US. This void of representation has opened the door to serious infractions against wages, benefit programmes and other less noticeable abuses such as enforced overtime.

I was part of AT&T's great purge of workers throughout the 1980s and was dismayed to witness six-day work weeks forced on telephone operators after tens of thousands had been ceremoniously declared redundant nationwide. While the US media continues to extol typical Americans' happy desire to spend endless hours a week at their jobs, there exists a large percentage who would gladly trade in this overtime for a modest reduction in the paycheck.

Furthermore, I was shocked when I was informed by my European friends how attractive vacation benefits are outside of the US. At AT&T – as is the rule at other "model" US companies – we were required to work for four years before our vacation time was increased from two weeks to three. I have even read in various reports that the typical US manufacturing worker spends nearly six weeks a year longer on the job than his European counterparts. In the face of this potential reality I suggest that the people of Europe reconsider exactly what type of "culture" Mr Blair has in mind.

Robert Bridge,
384 Chatham Drive,
Pittsburgh,
PA 15220, US

Need for genuinely neutral EU presidency

From Mr David Metcalfe.

Sir, Germany's predicament in the debate over European Union finances ("Bonn warns over EU finance reforms", February 24) illustrates a major weakness of the EU's rotating presidency.

As president of the council, Germany is charged with mediating in a disinterested way between the competing interests of member states. But as a member state Germany has a huge financial stake in the mediated outcome.

Experience indicates that the dilemma is solved by sacrificing national interests, not promoting them. The process and outcome of EU negotiations would be enhanced by designing a genuinely neutral presidency.

David Metcalfe,
program on negotiation,
Harvard Law School,
Cambridge,
MA 02138, US

The quote marks your film critic forgot

From Eiji Aoki.

Sir, May I correct a minor grammatical error in the critique of the film *Thin Red Line* ("Great film, shame about the script", February 25)?

Your critic Nigel Andrews seems to have forgotten to put quotation marks around the word "Japs", unless that is the word he himself uses to refer to the Japanese.

Mr Andrews suggested that the German jury awarded this year's Golden Bear to this film because they did not understand English well. It is a pity that not many spectators understand Japanese either. For Mr Andrews' benefit, I translate the words of a Japanese soldier towards the end of the film. The "Jap" repeated: "Is it you who killed my friends? Surrender! I don't want to kill you!"

Eiji Aoki,
Square de Meeus 5-6,
1000 Brussels,
Belgium

Number One Southwark Bridge, London SE1 9HL

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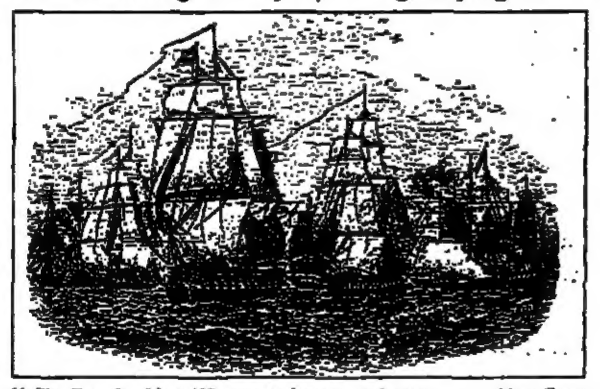
PERSONAL VIEW CLYDE PRESTOWITZ

The Japan that can say yes

Japan is beginning to change at last. The agents of reform are the foreign companies which are coming to buy up ailing buying local firms



Unlike Perry's ships, US companies are welcome — Mary Evans

While most policymakers fret about Japan's deflationary recession, there is a little-recognised silver lining.

One example was the announcement last week that Robert Bosch, the German auto parts giant, had acquired a *controlling interest* in Zexel, a Japanese fuel injection specialist. Although little remarked upon, the acquisition constituted a milestone: it marked *the first time since the* beginning of the second world war that any Japanese auto-related company had come under foreign control.

Even more startling is the fact that Nissan, long a favoured national champion and darling of industrial policymakers, is openly on the block and may shortly wind up as part of Daimler-Chrysler. What 30 years of jawboning and threats by trade negotiators could not accomplish in terms of opening the Japanese auto market is being delivered by the consequences of *seven years* of recession and failing financial institutions.

Of perhaps even more significance is the fact that no one in Japan seems to mind or even notice. A dozen years ago when T. Boone Pickens, the US corporate raider, bought into Koito, a Toyota lighting specialist, and demanded seats on its board, the whole of the Toyota *keiretsu*, along with most of the rest of Japan, rose with one voice to say "no" to the threat of foreign penetration of what was seen as a key Japanese industry. Indeed, at about the same time, a book entitled *The Japan That Can Say No* became a runaway best-seller. A few years earlier, the announcement by International Business Machines that it was moving a large part of its international staff to Tokyo elicited a spate of articles in the Japanese press darkly likening the arrival of IBM executives to the appearance of Commodore Perry's black ships in Tokyo bay in 1853 as well as to the arrival of General MacArthur to begin the occupation in 1945.

Against this background, what is happening in Japan today is dramatic. Delphi, the auto parts division of General Motors being spun off as an independent company, sold $1bn worth of parts to the Japanese auto makers in 1998 and plans to raise that by 50 per cent, mainly by way of takeovers.

Even more amazing is the story of Tenneco Automotive. Long a principal in the bruising negotiations over access to Japan's automotive market, it was accepted last year *as a member of Keidanren*, Japan's most influential business organisation.

Nor is the story limited to automotive companies. GE Capital has been systematically buying up distressed but promising properties and companies all around Japan, while Merrill Lynch took over the entire retail force of Yamaichi Securities.

Indeed, a high-ranking Ministry of Finance official recently told me the ministry *is practically begging for*eign financial companies to buy into the Japanese market.

For those who over many frustrating years have wondered whether Japan ever would or even could change its cosy, exclusionary business ties and practices, this is proof that the leopard not only can, but is changing its spots. It is also the best hope for the turnaround of the Japanese economy that exasperated US Treasury and other world financial officials can have. Their increasingly shrill demands that Japan stimulate its economy with easier money and bigger fiscal deficits have yielded little beyond rising frustration on both sides. Indeed, one top US Treasury official has been heard to say that Japan is finished as a great economic power.

At the same time, Japanese leaders who are already running the biggest budget deficits in world history without visible effect are asking "what more do they want us to do?"

What neither side has adequately understood is that the structure of Japan's economy is so distorted that the standard macro-measures are ineffective unless perhaps applied to extreme degrees that risk further damaging distortion. Ordinary Japanese citizens know it is no longer worthwhile to try to keep the old machine going with a bit more chewing gum and bailing wire. They will not regain confidence until it is clear that the old machine is being traded in for a new one. And that is exactly what the appearance of eager foreign investors and their integration into the inner sanctums of Japanese industry presages. The question now is whether it will continue and become permanent or be snuffed out by a reassertion of traditional, nationalistic views and policies.

There have indeed been rumblings on the right from such figures as Shintaro Ishihara, conservative politician and novelist (co-author of *The Japan That Can Say No*) who argues that the whole economic crisis is nothing more than an American plot to undermine Asia's heretofore rising influence. But these dissonant tones have not so far resonated with the Japanese public or mainstream policy makers. Nor are they likely to do so.

There has been a long-running debate as to whether the peculiarities of the Japanese economy that came to be characterised as Japan Inc. were cultural and thus largely immutable or matters of policy and convenience that might change to adjust to new circumstances.

Although always questionable from the point of view of long-run economic efficiency as well as international comity, Japan's adoption of policies that excluded foreign participation in its economy and emphasised national champions in key industries was understandable as part of its attempt to rebuild a national identity and reassert sovereignty in the aftermath of defeat. When these policies succeeded beyond all expectation, they were cloaked in the mantle of culture, thereby giving them an aura of uniqueness and permanency.

If the country was doing well, it was more satisfying to ascribe the success to innate national virtues than to subsidies, tariffs and cosy business practices. It also helped to ward off foreign pressure for market opening if the pressure could be characterised as an attack on Japanese culture. No country, after all, can legitimately be asked to change its culture.

But as success has turned to stagnation in the 1990s, Japan has come to realise that its very success created new circumstances to which the old model could not effectively respond. In the face of that realisation, the "culture" argument has given way to common sense and Japan has begun to do the unthinkable. It has begun to say "yes" – yes to deregulation, yes to consumer needs, and even yes to foreign investment. The more Japan continues to say "yes", the better both it and the rest of the world will feel.

The author is president of the Economic Strategic Institute in Washington, DC and a former US trade negotiator

Voting for change in Iran

Robin Allen asks whether President Khatami can transform the success of reformist candidates in local elections into a mandate to modernise the country

The first local council elections in Iran have just delivered a thumping vote of support for Mohamad Khatami, the country's reformist president.

Mr Khatami can certainly pull in the crowds. More than 70 per cent of the 40m electorate voted for him in the 1997 presidential elections. And despite Iran's *many economic ills* – 20 per cent unemployment, inflation running at 40 per cent a year, and the oil and gas sector in disarray – an astonishing 60 per cent of the elec*torate turned out last Friday* to vote. Although results are still incomplete, reformist candidates and their independent soulmates looked set to win well over 60 per cent of the 200,000 local council seats.

But popular support does not yet translate into national power for Mr Khatami; nor do local coun*cils, for which there is no* precedent, automatically mean economic devolution and the creation of jobs.

Many of those elected have no previous experience of *local or any other kind of* government.

The elections, according to one Iranian businessman, were "just another bone thrown to the people to keep them quiet".

"What authority are these councils going to have beyond ruling over garbage disposal?" he asked.

Indeed, the key levers in the country's power structure remain in the hands of clerics who wrote the 1980 constitution.

Paramount among these is the position of spiritual leader, whose incumbent, Ayatollah Ali Khamenei, was elected by fellow clerics in 1989, and whose authority overrides that of the president in controlling the judiciary, internal security, intelligence, the revolutionary guards and the armed forces.

It also includes a parliament dominated by conservatives, who jealously guard their fiscal and monetary powers.

Even the 36-man "Expediency Council", possibly the most powerful of the unelected constitutional bodies, can only meet when sum*moned by Mr Khamenei, the* spiritual leader.

Lurking in the shadows are the *bonyad* – the secretive "charitable foundations" owned by the state since the *fall of the shah*, which control many economic assets and which still wield enormous political clout. Last but not least, there are the "dark forces": thugs and ren*egades of the secret police*, who have been roundly denounced – even by the intelligence ministry – for the brutal murders last November of dissident writers and nationalist politicians.

The intelligence ministry's forced admission of responsibility for the killings, and the subsequent resignation of a minister, has done much to discredit Iran's militant conservatives.

The success of reformists in the local elections has therefore been viewed as a slap in the face for the traditionalists who are blamed for holding up political, social and economic reforms.

The vote was also seen as a dress rehearsal for the more important parliamentary elections next year. The strong showing for Mr Khatami's supporters has led some analysts to predict that the conservatives might lose control of parliament.

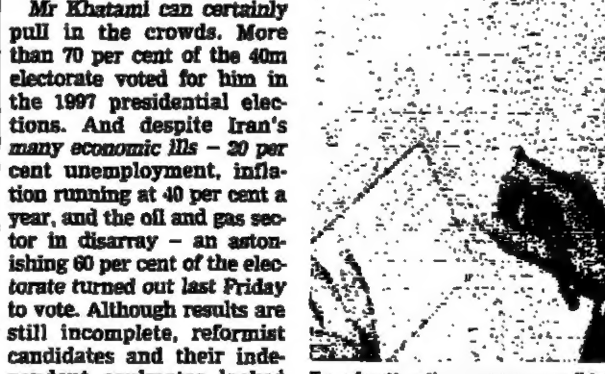
And if Mr Khatami has his way, the new local councils will have fiscal and political authority to manage schools, housing, roads and small development projects without having to consult the central government in Tehran. Given time, local councils could be the regional instruments for the *de facto* privatisation of the economic assets held by the *bonyad*.

Some of the local election results were rich in symbolism. In Tehran, Abdollah Nouri, Mr Khatami's first interior minister, received *the largest number of votes* in Tehran. Mr Nouri was impeached by the conservative parliament last June because he threatened their provincial power bases by *removing hardline governors* and officials.

Another reformist, Saeed Hagerian, came second. He was closely followed by Jameeleh Kadivar, wife of Ataollah Mohajerani, the reformist Islamic guidance and culture minister, himself under fire from the conservatives.

In Isfahan, a key provincial capital, candidates running on the ticket of reformists groups took 80 per cent of the seats. Isfahan is the home base of Gholamhossein Karbaschi, who until last summer was the popular and effective mayor of Tehran. He quit the post after a hardline judiciary convicted him for fraud. The trial was widely condemned for being brazenly political.

Women candidates, some 4,000 of the 327,000, fared disproportionately well in the local elections. In four towns they have swept the board, winning all the council seats.



Female attraction: women candidates did disproportionately well

Voters in Ardekan, a rural town 1km north of Shiraz, elected Fatemeh Khatami, Mr Khatami's sister and a 61-year-old mother of six with no previous experience in politics.

Even the fact that free local elections were held was seen as another victory for Mr Khatami.

So too was the failure to weed out candidates not to *the liking of conservatives* from the ballot list. Perhaps traditionalists have seen the writing on the wall. Many of them know that if they continue to block reformist legislation, they risk being thrown out by voters in next year's general elections.

Mr Khatami's government has already introduced civil freedoms unheard of five years ago.

Devolution of fiscal and political power to the provinces, so official thinking goes, will further undermine conservative control.

However, formidable obstacles remain to the president's devolution plans. The most formidable is the people's lack of experience at running their own affairs.

Ahmad Azizi, chairman and managing director of the state Bank of Industry and Mines, says: "The people and the economy are inward-looking. For two generations *people have lived off the* state's oil revenues."

The result, according to one economist, is "bureaucratic arthritis" – a widespread resistance to change.

"You have to get foreign expertise to open up the economy, create jobs and investment," says Dariush Fazlollahi, chief representative of Dresdner Bank's Tehran office. "No one in the government has this."

Mr Khatami is lucky that he still commands widespread national support. He is credited with opening up the political system and breaking down some vested interests in Iran.

He did succeed, for example, in persuading Mr Khamenei to retire the head of the revolutionary guards *just after taking office*. But his success so far pales in comparison to the task that lies ahead: re-educating the country's bureaucrats as a prelude to *modernising the economy*.

FINANCIAL TIMES

Number One Southwark Bridge, London SE1 9HL
Tel: +44 171-873 3000 Telex: 922186 Fax: +44 171-407 5700

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Money for nothing

Japan is testing the very limits of monetary policy. Short-term interest rates yesterday hit zero, thanks to the intervention of the Bank of Japan. Yet even this desperate move will do little to ease the country's economic plight.

This is for two reasons. First, Japan's banks are in no position to make use of the extra liquidity in the system, as they are still in the midst of reform; the last thing they want to do is lend more. Second, investors' fears about the state of the Japanese government's finances mean that long-term interest rates are still relatively high.

More important is the shift in economic policy that lies behind the move. At the beginning of this year, the Japanese authorities seemed resigned to the joint deflationary impact of a strong yen and high bond rates. On the February 16, however, they announced an abrupt change in policy, with the resumption of bond purchases by the Trust Fund Bureau, and a shift to shorter-term bond issues. The result was a sharp fall in the yen and a small drop in bond yields.

There is now growing speculation that the Bank, having utterly exhausted its conventional policy options, may be forced to consider buying government bonds outright in an attempt to reduce long-term interest rates. This policy, particularly if combined with a target for inflation or money growth, could be powerful enough to pull Japan out of recession. In mopping up the excess supply in the bond market, it would also make further bond-financed fiscal action much easier to carry out.

Such a move would be a big change of policy for the conservative Bank. It will only take place if central bank officials are convinced that it is the only way to avoid economic disaster.

Ironically, there is a risk that the expansionary impact of past economic policies may prevent this vital step from taking place. There are signs – as yet very tentative – that the government's various fiscal packages are taking effect, and could prevent the economy from shrinking much further in the near future. If the Bank believes this to be the case, it will be very reluctant to engage in emergency monetary intervention.

But this would be dangerously short-sighted. If better economic news does appear, it is unlikely to last. The only expansionary influence in the Japanese economy is fiscal policy; once this stimulus disappears, towards the end of this year, any growth is likely to disappear with it.

The Japanese economy needs a combination of aggressive monetary policy, loose fiscal policy and financial sector reform. If any of these elements are missing, its prospects are bleak.

US tax debate

Identifying a coherent demarcation line between the political right and left remains an enduring challenge in the post-cold war world. But in the US, unlike Europe, there appears to be a clear and consistent dichotomy: Republicans and Democrats are doing battle on the traditional ground of tax cutting versus public spending.

Yet the battle is curiously uneven. No matter that the state has been ideologically downsized even in the eyes of die hard leftists since the fall of the Soviet Union. Republicans are having great difficulty in their campaign this week to sell tax cuts to the American people. President Clinton appears closer to public opinion with his plan to spend budget surpluses on state-administered pensions and healthcare.

This anti-cut preference requires explaining in a country where suspicion of the state is endemic and resentment of taxation has strong historical roots.

Clearly the buoyant condition of the economy is relevant. After-tax incomes have risen significantly, especially for middle-income families. Lower down, the number for whom real incomes had been stagnant for years – the scare story of the mid-1990s – has been shrinking perceptibly.

Equally important, there is a fear that painfully accumulated budget surpluses might be squandered in populist tax giveaways. After nearly two decades in which the US budget was consistantly in deficit, Americans do not want a hard-won surplus to slip through their fingers. But how can this fiscal conservatism be reconciled with the readiness to see increased state spending?

With the lowest level of public spending in the OECD area apart from Korea, the US might be expected to exemplify the conventional economic wisdom that demand for public goods such as healthcare and pensions inevitably increases as people become more affluent. Yet sympathy for the president's spending plans appears rather to reflect a desire for good financial housekeeping in addressing the great challenges of the 21st century, notably those arising from the ageing of the population.

This long-termism, which contrasts markedly with the head-in-sand European approach to more acute demographic pressure, is admirable. Whether it ultimately finds expression in Mr Clinton's social security proposals is another matter. When the personal and corporate sectors of the US economy start to rebuild their balance sheets after the present boom, their shrinking deficits will be partly matched by a shrinking government surplus. And it would not be surprising if current estimates of that surplus prove over-optimistic.

If so, the American people's instinctive fiscal conservatism, reflecting pragmatism rather than ideology, will turn out to be a sound insurance policy.

Euro-conduct

The European Commission, the executive arm of the European Union, had a narrow squeak in January, when it faced a censure motion in the European parliament. The charges against it were of lax management, leading to cases of outright fraud, and of cronyism in personnel appointments.

It survived the vote thanks largely to promises of a thorough investigation of the allegations, and the drafting of new codes of conduct for commissioners and their personal staffs, as well as for the rest of their bureaucracy.

The investigation is due to be concluded by mid-month. But yesterday Jacques Santer, the commission president, conceded for the first time that if the actions of individual commissioners were "called into question" by the report, they should resign.

That is certainly correct, if a belated admission. Hitherto the 20-member body has hidden behind an exaggerated concept of collegiality, according to which they would all quit, or none of them. Far from reinforcing public confidence in the body, it allows the suspicion to flourish that incompetent commissioners can hide behind their collective responsibility.

Unfortunately, the commissioners failed to agree yesterday on the details of their codes of conduct, although they did finalise the broad principles. For example, they will be forbidden from holding any public office apart from their job in Brussels, although they can hold party political posts. Nor may they engage in any other professional activity, paid or unpaid; writing paid articles or delivering lectures for fees.

The first prohibition is a sensible attempt to prevent any conflict of interest. The second is rather to ensure propriety in their conduct, which really should scarcely need to be spelt out for such high-level and well-paid people.

What is missing, however, is a clear definition of the size and role of the commissioners' personal offices. Here lies the nub of nationalistic interference in personnel appointments in Brussels. These *cabinets* have swollen over the years, and spend far too much of their time seeking to ensure that compatriots are appointed to key jobs. They need to be kept deliberately small, and multi-national. On that the Commissioners failed to agree.

Mr Santer is proposing to recommend new rules on the *cabinets* to his successor as president. Let us hope that he does so in order to have stricter rules than he could get through his own commission. But no amount of codes and regulations can ensure good behaviour and performance. The best regulator is a culture of transparency and accountability.

Unconstructive, less engaged

Stephen Fidler and **James Kynge** say that US-China relations are going from indifferent to bad

An intense round of US diplomacy this week is attempting to save a pillar of Bill Clinton's foreign policy: constructive engagement with China.

In what was billed as a significant foreign policy speech last week, Mr Clinton repeated that the US remains "strongly committed to principled and purposeful engagement with China."

Trouble is, since his visit to China last year, he has precious little to show for it. Much to Americans' dismay, China has been cracking down on dissidents in the wake of the Asian financial crisis, while the environment for US companies in China has worsened.

Now, all of a sudden (or so it seems) a new issue has emerged which could expose the fault lines between the two countries: missile defence.

The debate was set off by the launch last August of a North Korean missile over Japan. That missile shifted public and political opinion in Japan, arguably the US's most important Asian ally, towards a more serious consideration of a missile defence system protecting its territory.

It also led the US to jumpstart existing programmes for theatre missile defence (TMD) to protect US forces abroad (as well as to pour resources into a US national missile defence system aimed at protecting the US itself from missile attack).

Beijing is violently opposed to the introduction of a theatre missile shield anywhere in Asia, as an unwelcome shift in the balance of force there. But it is the prospect of a US-furnished missile shield for Taiwan, which it considers a renegade province, which has provoked the most extreme reaction.

A decision to deploy such a shield would be regarded in unambiguous terms by Beijing as the start of the dreaded policy of "containment" – the opposite of "constructive engagement" and the policy pursued by the US to China in the 1950s and 1960s. It would kill any remaining hope for a US-China "strategic partnership", and raise the temperature in relations across the Taiwan strait. Engagement would risk turning into enduring hostility.

Beijing fears that a missile shield for Taiwan would encourage the island to declare independence because it would neutralise Beijing's threat to use force in that event. James Mulvenon of Rand Corporation, says TMD for Taiwan raises two main concerns for China. It would undermine China's only credible military threat against Taiwan, given that an invasion is militarily impossible, and it would foster much greater co-operation between Taiwan and the Pentagon.

Visiting Beijing this week, Madeleine Albright, the US secretary of state, sought to avoid confrontation on these matters. When Chinese officials raised the question of the missile shield, "I replied that instead of worrying about a decision that has not been made to deploy defensive technologies that do not yet exist, China should focus its energies on the real source of the problem – the proliferation of missiles".

Mrs Albright said China should first use its influence to urge North Korea to restrain from missile development and testing, and to use its dialogue with Taiwan to reduce the perceived need for both missiles and missile defence.

But the missile debate may have brought to the surface a fundamental divergence of interests between the US and China. This divergence, say critics, has been almost deliberately submerged as the administration has sought to justify its engagement with China.

Most military analysts and China watchers believe China's medium-term strategic ambition is to become the most powerful nation in Asia. The achievement of this aim will necessarily mean unseating the region's current military and diplomatic boss – the US.

Military experts say that the pattern of China's arms acquisitions and deployment shows it is preparing primarily for two theatres of operation, Taiwan and the South China Sea.

Of the two, the South China Sea – which China claims virtually in its entirety – has the greater strategic significance. About 15 per cent of the world's cross-border trade passes through the sea every year. If China controlled these sea lanes, it would have a potential stranglehold over not only commercial but also military traffic through the heart of Asia.

China's recent construction of structures on a reef near the Philippines shows that Beijing has no intention of letting go of its claim to the Spratly islands – several hundred dispersed islands and reefs scattered through the sea, the analysts say. Legally, too, Beijing is preparing to exercise sovereignty. In 1992, it promulgated a law that allows its navy to "evict foreign naval vessels", and rules that foreign navy ships must apply for permission before crossing the sea.

The Clinton administration would not be the first to try to conduct China policy without airing fundamental issues publicly. In a new book about US-China relations, *About Face* (Knopf, $30), James Mann of the Los Angeles Times writes that US administrations have conducted China policy secretively and in a personalised manner since Henry Kissinger opened up relations during a historic visit to Beijing in 1971 as Richard Nixon's national security adviser.

But in the long run, argues Mr Mann, policy cannot be hidden from the public and carried out exclusively by elites. In particular, conducting secret diplomacy has become more difficult since the Tiananmen Square crackdown in 1989 exposed another fundamental fault-line: attitudes to human rights.

Changes in this secret diplomacy may be on the horizon. There are two reasons for thinking that the changes will see a hardening of US attitudes and, hence, a greater likelihood of confrontation. First, China is likely to be an important issue in the 2000 presidential election – as it has been in every election since 1989. With the likely Republican candidate George Bush assembling a group of foreign policy advisers with relatively hawkish reputations, such as Paul Wolfowitz and Richard Perle, "constructive engagement" may prove a policy on which his likely challenger, Al Gore, the vice-president, is vulnerable.

Mr Gore has shown signs anyway that he may talk tougher on foreign policy than Mr Clinton. So to cover Mr Gore's potential vulnerability, a hardening of administration attitudes toward China over the next 18 months may be on the cards.

Second, Congress seems less likely than ever to allow the administration a free hand with China policy – both from the left, where Democrats are pressing hard on human rights concerns, to the right, where security issues dominate.

Part of the reason for that is the legacy of mistrust that remains between the majority party and the White House after the impeachment trial. That mistrust has its special Chinese dimension.

A special report from a House panel led by Christopher Cox, the California Republican, has concluded that US national security has been endangered by China's licit and illicit attempts to gain access to US technology with military applications.

Though that bipartisan report has not been declassified yet, some Republicans have concluded that the Clinton administration has played fast and loose with the system of controls on transfers of so-called dual use technology – commercial technology with potential military uses.

Those suspicions have centred on, but are not limited to, the benefits to Chinese missile technology that have been derived from the launches of US satellites on Chinese rockets.

According to one Republican aide on Capitol Hill, "the system to prevent technology transfers to China during satellite launches wasn't working, not because it couldn't work but because they [the administration] didn't want it to work".

Republicans then question why the administration seemed to be looking the other way. Was it to preserve the policy of engagement with China? Or to preserve a business-friendly environment for US companies operating there?

Both motives, they admit, would have been potentially valid public interest arguments. It is a third Republican suspicion that could be the most damaging: that the administration was influenced by Chinese campaign finance contributions.

Democratic campaign coffers benefited ahead of the 1996 elections from contributions both from prominent satellite manufacturers such as Loral and from Asian businessmen – though much of their money was returned as illegal.

The Cox committee's efforts to examine the link between campaign finance and technology transfers went nowhere – one reason it was able to preserve a bipartisan consensus in its findings. Many potential witnesses have either fled the country or took the fifth amendment right to silence. The prospect of prosecutions under a Justice Department investigation deterred the Cox committee from offering immunity from prosecution for other witnesses.

Administration officials react angrily to claims they were influenced by campaign finance considerations. They point out that senior Republicans were pressing the administration to relax export controls in the early 1990s; that countries such as China have access to high technology from sources other than the US; and that the decline of military spending in the US means that technology exports are necessary to the continuing success of US high-technology companies.

Whatever the truth, though, a tightening of the control regime on US high-technology exports is almost certain to result. The rejection of an export licence last month for the launching of a Hughes satellite on a Chinese rocket has provided yet another bone of contention between Beijing and Washington.

With difficulties almost across the board, US and Chinese officials are hoping for a breakthrough in the one area where it still is possible: China's accession to the World Trade Organisation. That could cap a visit to Washington next month by Zhu Rongji, the Chinese premier and economic supremo. Given China's economic difficulties, getting an agreement that will satisfy US business and farm interests – and other members of the WTO – will be far from easy.

And even if an accord is reached, the unusual warmth between the two countries that was demonstrated during Mr Clinton's visit last year is unlikely to return for some time to come.

OBSERVER

Tsang budgets on promotion

Donald Tsang's flashy bow ties have for a long time set him apart from the rather more sober sartorial inclinations of other Hong Kong financial secretaries, but yesterday's budget speech was something of a departure from tradition in another sense too.

Given the territory's *laissez-faire* stance, it's quite unusual for financial secretaries to use a budget speech to trumpet their success in luring a company like Disneyworld to Hong Kong.

No doubt Disney will cheer up the depressed economic mood, as will yesterday's 10 per cent tax rebate. But Tsang's speech also looked like a pitch to boost public support for himself. Anson Chan, Hong Kong's chief secretary and top civil servant, is expected to retire next year, and Tsang is one of the hottest favourites to succeed her.

If he does it would be something of a coup for a man who around the time of Hong Kong's handover to China survived intense speculation he would be dropped from government.

His pronounced free market views were more than a little out of line with the somewhat dirigiste inclinations of Tung Chee-hwa, Hong Kong's chief executive.

Strangely, Tsang's speech incorporated some of Tung's views on the need to upgrade Hong Kong's high-tech capabilities.

Perhaps the recession has helped modify Tsang's philosophy. Whatever, his performance yesterday was that of a team player, despite the individualistic neckwear.

Lewinsky at large

Watch out! Monica's about! Soon after Andrew Morton's tome about Monica Lewinsky hits the streets tomorrow, the fun-loving former White House intern will wing her way across the Atlantic to Britain for a two-week UK publicity blitz.

Lewinsky's advisers have concluded the British trip will give Uncle Sam a welcome break from the raven-haired temptress. They reckon that while the American public's heartily sick of her, and might be tempted to ram the wretched book down her throat, she'll prove a really big hit in the UK.

So the book signing and publicity in the US will be handled by Morton himself, who's regarded as a heavyweight author following his account of the breakdown of Princess Diana's marriage to the Prince of Wales.

In Britain, on the other hand, there are far too many bitterly jealous journalists who can remember Morton's much less glamorous days on the country's infamous tabloid rag, the Daily Star.

Spinning wheel

Let's face it, spin doctoring has never been the European Commission's strong point – a fact that's become abundantly clear during the recent crises over fraud, nepotism and bad management.

So it comes as little surprise to learn that Peter Guilford, former spokesman for Leon Brittan, and Caroline Schickel, an official from the Commission's personnel directorate, have been seconded to Jacques Santer's office, which is still reeling from the vicious drubbing it received at the hands of the European Parliament in January.

They're on hand to sharpen up the message, although the ever modest Guilford is at pains to insist he and Schickel are in no way media manipulators. Instead, they'll help churn out the many mountains of material that the fraud crisis has generated and – in the meantime – "put a bit of bite" into the Commission's response.

However a colleague helpfully chooses to put an altogether different spin on things. "They were brought in to get some of the good messages about the commission to the outside world," the informant chuckles to Observer.

"But this is an uphill task as people at the top are administrators and technocrats and don't understand politics." Looks like Guilford will have to get a grip.

Toilet trial

When it comes to the the legal profession, life rarely imitates art. The London offices of lawyers Osborne Clarke have tried to recreate the angst-ridden world of US TV series *Ally McBeal*. The firm agreed to establish a unisex bathroom for the day as part of a trial for the BBC's *Nice Work* programme.

Observer would have expected the air to be filled with the sound of short-skirted, stick-thin solicitors agonising about their lifestyles and love traumas. Not a bit of it, says managing partner Leslie Perrin. Although his firm is, of course, full of "impossibly beautiful people who never lose a case", he confesses staff were lacking in enthusiasm for the experiment.

They're infinitely more likely to pore over great big legal files in the restroom than to dissect office romances. And he lets slip that the FT "has visited more law firm loos than any other publication".

Designers have proposed that unisex loos be built into the company's new offices in Bristol, but Perrin seems to be convinced that the idea will be "universally unpopular". So that's that one down the pan.

The Financial Times

100 years ago

Truth Will Out

When a company wishes to avoid publicity or notoriety it generally attempts to achieve its object by withholding copies of its reports and other documents from the Press. The tactic often fails, just as the method of the nervous ostrich failed, provoking the more attention by reason of its grotesque attitude. When the company finds its efforts frustrated, it frequently gets very cross under the influence of hostile criticism, and it occasionally acts with a lack of discretion arising from ruffled temper.

50 years ago

Trouble In Burma

The seriousness of the political and particularly the economic condition of Burma to-day cannot be over-stressed. It is hardly too strong to say that, with her economy virtually at a standstill, Burma is approaching bankruptcy. In such circumstances foreign assistance through loans, as has been mooted recently, seems inevitable. And there can be few who, seeing the Communist threat to Burma, would deny the wisdom of such measures speedily taken.

FINANCIAL TIMES

THURSDAY MARCH 4 1999

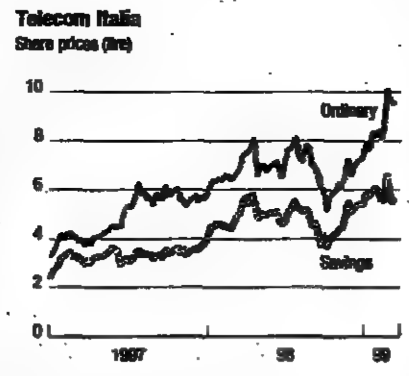
THE LEX COLUMN

Golden retriever

Goldman Sachs deserves credit for grabbing the bull market by the horns. With share prices riding high again, a new top management structure in place and a good first quarter under its belt, the investment bank is right to relaunch its aborted initial public offering with all possible speed. The issue has already caused enough dissension in the firm and taken up too much senior management time. Meanwhile, the securities industry is changing ever more rapidly. Take, for example, the explosive growth in internet share trading over the past six months – an area in which Goldman and most of its peers are floundering for a strategy.

The stock market's revival has also helped Goldman's valuation rebound to levels its 200-odd partners can live with. The dreams of $30bn are gone, but so is the talk of $16bn at the height of last year's financial crisis. Shares in Morgan Stanley and Merrill Lynch have doubled since October, leaving them trading on 17-18 times prospective earnings. Analysts suggest a reasonable discount for Goldman would be 14 times, giving a rough valuation of $20bn-$23bn.

That may be slightly optimistic. Goldman's poor fourth-quarter results reinforced its dependence on volatile trading income compared with its more balanced rivals. But whatever the final price – to be set in May – and whatever the market does meanwhile, Goldman knows it cannot back down again.



Telecom Italia/Olivetti

Savings shareholders often get a raw deal in Italy. Because they do not carry votes, they can be pushed around. That is the risk facing Telecom Italia's savings shareholders. If Olivetti wins its audacious bid for Telecom, the savings shareholders could be forced to accept non-voting stock in a highly leveraged acquisition vehicle.

Without details of how such a swap would work, it is impossible to know whether savings shareholders would suffer. Conceivably, they could be delighted. But they are clearly not being treated in the same way as ordinary shareholders. For a start, they are not being offered an exit, let alone at a premium to the previous price. And non-voting stock in Olivetti's acquisition shell could well pay lower dividends than those they are used to. Moreover, savings shareholders will not get a choice in the matter.

From an Anglo-Saxon perspective, all this looks to be rather a poor show. But do not shed too many tears. Precisely because savings shares do not carry votes, they trade at a discount to ordinary shares. That means savings shareholders bought in on the cheap; grown-up investors presumably knew the risks they were running. In any case, many shareholders hold both classes of stock. That gives the savings shareholders some protection. After all, Olivetti would not want to treat them so badly that voting shareholders – often the same people – reject its offer.

● The share prices quoted in the chart above are incorrectly stated in lire rather than euros.

Heineken

Only those drunk on some of Heineken's export strength beer could have expected it to forecast anything other than slower growth this year. A 29 per cent increase in net profits is obviously laudable, but unrepeatable too. Indeed, the Dutch group will do well to achieve half that rate this year. Such a slowdown was already factored into forecasts, so why the 5 per cent share price fall? The simple answer is that the stock was still sobering up after outperforming its global peers by 70 per cent last year, sending its 1998 price/earnings ratio as high as 40.

The shares are now more than 20 per cent off their peak, and back in justifiable territory. Although growth in the world beer market has slowed to less than 2 per cent, Heineken has capitalised on industry consolidation and a switch to higher priced brands. In recent years, it has taken market share in France, Italy and Poland to a third or more, rationalised production and pushed up profit margins. More can be squeezed out in 1999, but momentum is slowing.

So the time is ripe for the next acquisition. Heineken has targeted Spain, where Diageo might be prepared to sell Cruzcampo. At twice sales this would cost about €800m – a snip for a group with little debt and a market value above €14bn. Heineken remains among the world's most expensive drinks companies on an enterprise value 12 times 1999 earnings before interest, tax, depreciation and amortisation. And it deserves to be.

GKN

CK Chow, GKN chief executive, has every right to purr. Compared with its peers, GKN is a class act. As yesterday's results showed, lifting its shares 7 per cent, Mr Chow managed the business through the *annus horribilis* of 1998 with admirable cool. Pre-exceptional earnings rose by more than 17 per cent; sales growth was in double digits too. Such numbers give credibility to Mr Chow's attempts to portray GKN as more of a growth stock than a sorry cyclical.

Maintaining this in 1999 will be tough, given the slowing European car market. But strong performances in the non-cyclical helicopter business and the remarkable Chep pallets operation (where profits and sales both increased by more than 30 per cent) bode well for another year of near 20 per cent earnings growth. A new Mr 20 Per Cent, perhaps, now Rentokil's Sir Clive Thompson has finally faltered.

For lesser engineers, the outlook is not so bright. Although interest rates have fallen two percentage points since late 1998, they are on hold for now. Sterling has gained 5 per cent on the euro since its launch and demand for industrial products remains patchy. Not surprisingly, January's bid-inspired rallies look short-lived. The sector may be valued at the same relative low as 1992, but betting on cheerful news does not seem wise yet.

Disney theme park could help Hong Kong economy

By Peter Montagnon and Rahul Jacob in Hong Kong and Christopher Parkes in Los Angeles

Hong Kong yesterday launched a series of bold measures to improve its competitiveness, regain ground lost to Singapore and boost its flagging economy.

Donald Tsang, financial secretary, confirmed the government was close to a deal to host a Walt Disney theme park and unveiled a HK$13bn ($1.7bn) "cyberport" project to help Hong Kong become an international information services hub. The government planned to raise HK$30bn through a flotation of a stake in the territory's mass transit railway.

"We should see the present crisis as an opportunity to remove structural obstacles and seek to maximise the strategic advantage of Hong Kong's geographical location," Mr Tsang said, as he presented the territory's latest budget.

Analysts said the budget contained bold measures, but it was marked by a shift from Hong Kong's traditionally laissez-faire approach to a more Singapore-style form of industrial and financial promotion.

The government would move to demutualise, merge and list its stock and futures exchanges, a route already taken by Singapore. Mr Tsang also said Hong Kong would develop its local debt market by listing government exchange fund notes on the stock exchange, paving the way for the eventual listing and trading of corporate bonds.

"Our mission to excel as a financial centre must prevail," he said. Reform of the exchanges would allow them to raise additional capital, which would help pay for new technology.

Hong Kong has become the front runner in the race among Chinese cities to host a Disney theme park. The park would be built on Lantau, the island base of the territory's new airport, and could form a centrepiece for a revived tourism industry, which today accounts for 4 per cent of regional gross domestic product. Announcing several other tourism initiatives, he said the park's first phase could open in 2005. A greenfield investment by Disney, which could cost several billion dollars in local and US spending, would mark a breakthrough for the US company, and a launch point for other attractions in mainland China.

Judson Green, new chairman of the group's revamped attractions operations, and Robert Iger, named last week to run a newly formed international division, have detailed briefs to expand Disney's non-US revenues, which currently account for 20 per cent of the group total.

Mr Tsang described last year's 5.1 per cent fall in gross domestic product as "the worst economic setback our generation has ever seen", and handed out a 10 per cent tax rebate to help ease the pain on consumers.

This year would still see only modest growth of around 0.5 per cent, he said. But the budget deficit would rise to HK$36.5bn or 2.8 per cent of GDP in the financial year starting in April from HK$32.3bn in the current year.

Boldness of plans, Page 7
Observer, Page 11

Finland seeks to implement pact between EU and Russia

By Tim Burt in Helsinki and Andrew Jack in Moscow

Finland plans to use its presidency of the European Union this year to implement a new co-operation pact between the EU and Russia.

The pact, covering up to 60 separate areas of co-operation from improved road links to economic partnership projects, is expected to be adopted at the EU summit in Cologne in June.

Paavo Lipponen, the Finnish prime minister, said it would signal the start of a new strategy towards Russia by the EU.

"The basic aim is to integrate Russia into Europe as a democracy and market economy. This is the strategic goal," said Mr Lipponen.

He said he had discussed practical measures involved in the pact at a meeting with Yevgeny Primakov, his Russian opposite number, in St Petersburg last month.

The partnership is expected to include increased EU aid for environmental clean-up operations in Russia.

Finnish officials said other topics included under the programme would be: a Russian gas pipeline to southern Europe, a gas link to Finland, a highway between Moscow and Helsinki, and co-operation over nuclear safety.

The initiatives will be implemented during Finland's presidency, which starts in July, as part of the so-called "Northern Dimension".

This is a project based around the idea of tighter long-term co-operation between Russia, the Baltic Sea basin and Nordic states.

"We are approaching a concrete stage in creating the Northern Dimension, which will lead to a new agenda with Russia covering many different projects," said Mr Lipponen.

The approach, first developed at the time of the Finnish-Russian bilateral treaty in 1992, has already led to improved links between Finland and the Russian regions along its 1,300km border – Finland is the only EU state that borders Russia.

Ari Heikkinen, head of the Northern Dimension programme, said: "It is a political idea based on the concept of growing inter-dependence between the EU and Russia, especially since the membership of Norway, Finland and Sweden. By 2020, we estimate that Europe will import 70 per cent of its natural gas and Russia has reserves of strategic importance."

Mr Heikkinen said the Finns believed there was already sufficient funding and that instead the emphasis would be on "intensifying existing mechanisms".

A meeting with Russian officials is scheduled to take place at the Finnish embassy in Moscow at the end of the month to discuss possible topics, and also additional ideas from the Russians.

Given the potential risk of tensions between Russia's regions and the federal government, Mr Heikkinen stressed that all the initiatives would nonetheless be discussed with officials in Moscow.

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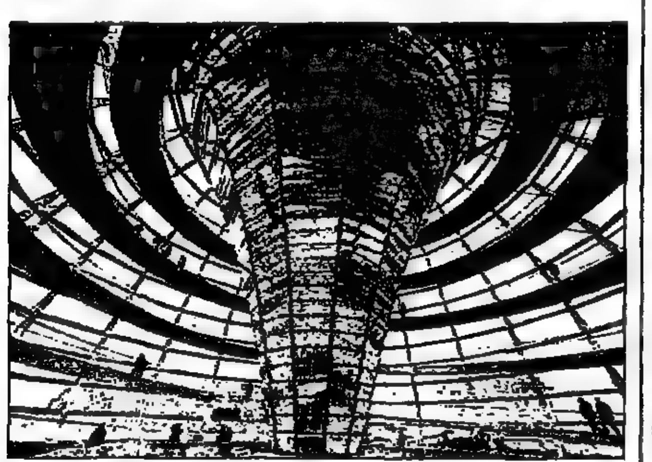


Visitors walk in the dome on the Reichstag, which is due to become the seat of the German parliament from April. The dome, designed by UK architect Norman Foster, was unveiled to the press in Berlin yesterday

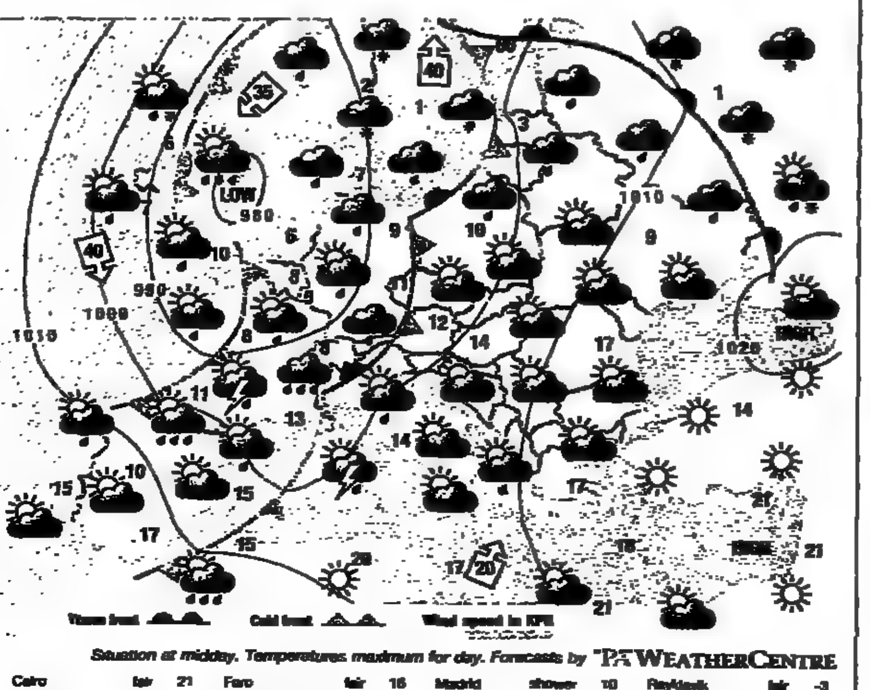
FT WEATHER GUIDE

Europe today

North-western and central Europe, the northern Iberian Peninsula and southern Scandinavia will be windy with showers or longer periods of rain. Heavy rain is likely, with a risk of thunder. The eastern Mediterranean will be warm and sunny with only the odd shower over Greece. The central Mediterranean will see heavy showers pushing south and east while eastern Europe will stay dry and warm. North-east Europe and northern Scandinavia will be cold with outbreaks of sleet and snow.

Five-day forecast

Western Europe will remain showery into the weekend with cold winds extending into France, the Low Countries, Germany and northern Italy. Northern Spain will turn colder before milder weather returns, but it will bring heavy rain through Sunday and into Monday. Eastern Europe will become warmer.



Situation at midday. Temperatures maximum for day. Forecasts by PA WeatherCentre

TODAY'S TEMPERATURES

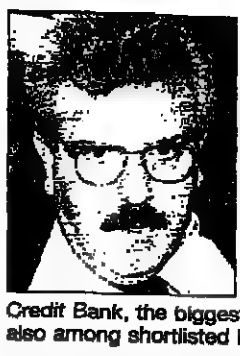
		Maximum Celsius
Abu Dhabi	sun	25
Accra	thunder	33
Algiers	shower	15
Amsterdam	shower	6
Athens	fair	17
Atlanta	sun	12
B. Aires	fair	29
B.ham	shower	8
Bangkok	shower	35

FINANCIAL TIMES
COMPANIES & MARKETS
© THE FINANCIAL TIMES LIMITED 1999 THURSDAY MARCH 4 1999 Week 9

INSIDE

Tel Aviv market defies turbulence
The Tel Aviv stock exchange has defied the critics. With elections in May, a stalemate in Israeli-Palestinian peace negotiations and fighting in south Lebanon, one might expect the markets to be jumpy. But in the past two weeks the index has risen sharply. Page 36

Greece poised for bank sell-off



The battle for market share in Greece's banking sector is heating up, with the government set to sell 51 per cent of Ionian Bank. Two aggressive local banks, EFG Eurobank and Piraeus Bank, are the front-runners to buy Ionian, headed by Haris Stamatopoulos (left). Alpha Credit Bank, the biggest private Greek bank, is also among shortlisted bidders. Page 16

Interest rate doubts weigh on shares
Uncertainty over the direction of US and euro-zone interest rates weighed on European shares. Most equity investors stayed on the sidelines in anticipation of today's European Central Bank meeting and Friday's release of US non-farm payrolls. Page 23

Australian wool industry in crisis
Australia's wool industry is in trouble. Exports have crashed, real wool prices are at their lowest ever and stocks of wool yarns remain stubbornly high in Japan and Europe. More than 15 per cent of producers are bankrupt and the number of specialist wool producers fell by half in the first seven years of this decade. Page 26

Headhunter in performance fee plan
Martin Armstrong, who runs a London-based executive search company, says performance-related pay for managers should apply to the headhunters who find them. "You should reward search companies on how well the person has done." He will forgo part of his fee in return for a performance-related slice. Page 22

Japan local government bonds rated
Japan's local governments have been awarded individual credit ratings according to their financial situations. The move reflects a feeling that their bonds no longer carry implicit central government guarantees. Page 24

Air Afrique court case opens in Paris
The opening in Paris of a court case against Air Afrique will turn the spotlight on the west African carrier brought to the brink of collapse last year by a mountain of debt. Page 16

Toughened glass breakthrough
A team of researchers in the US and Italy has designed a method of strengthening glass that could pave the way for thinner and lighter panels in electronic displays. Page 22

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MARKET STATISTICS

TELECOM ITALIA SAVINGS SHAREHOLDERS MAY BE FORCED TO ACCEPT NON-VOTING SHARES UNDER NEW OFFER

Investors uneasy with Olivetti bid

By Hugo Dixon in London and Paul Betts in Milan

Nearly one-third of Telecom Italia investors may be forced to accept non-voting shares in an Olivetti subsidiary if Olivetti's €53bn bid for the telecommunications giant succeeds, a Financial Times analysis of the Olivetti bid shows.

Such a move would cause unhappiness among Telecom Italia shareholders, some of whom already think Olivetti's bid is too cheap and that it will result in the company being loaded with too much debt.

Bankers say Olivetti may merge Tecnost, the vehicle being used for the bid, into Telecom Italia. That would have profound implications for Telecom Italia's savings shareholders, who account for 29 per cent of its investor base.

Savings shares, which do not carry votes, are not subject to Olivetti's offer. But if Tecnost were to merge with Telecom Italia, these shares would be exchanged for non-voting stock in Tecnost.

The main attraction in forcing such a merger would be to help Tecnost service the €34bn in debt it will inherit if the bid succeeds. All Telecom Italia's cashflow would then be available to cut Tecnost's debt because there would no longer be any need to pay large dividends to the savings shareholders. A subsidiary attraction would be to cut tax payments, as the interest payments on Tecnost's debt could be offset against Telecom Italia's profits.

Savings investors may not be happy with the possibility of their dividend being cut or with becoming non-voting shareholders in a company controlled by Olivetti. But because savings investors do not have votes, bankers believe they would not be able to block such a merger.

Telecom Italia has called a board meeting in Milan today to sharpen its defences against its much smaller Italian telecoms rival. The board, which has already rejected Olivetti's revised bid, is expected to call a special shareholders' meeting to approve its merger with Telecom Italia Mobile, its 60 per cent-owned cellular telephone subsidiary. That would substantially increase the cost of any takeover.

Analysts said Telecom Italia could also consider converting its non-voting savings shares into ordinary voting shares and propose a special dividend to raise the stakes in the takeover battle. However, under new takeover rules, such defensive action would require approval by an extraordinary shareholders meeting at which at least 30 per cent of the company's capital was represented.

Franco Bernabe, chief executive, continues to strengthen his grip on Telecom Italia with the appointment of Giovanni Stella, a former executive of Eni, the oil group headed by Mr Bernabe before he joined Telecom Italia last November.

This followed the resignation at the weekend of Fulvio Conti, the financial officer who was appointed under the previous regime of chairman Gian Mario Rossignolo.

Lex, Page 12
Chinese boxes, Page 14

Tensions over control stall BSkyB talks with Canal Plus

By John Gapper in London and Samer Iskandar in Paris

Merger talks between Canal Plus and British Sky Broadcasting, the pay-television companies, seemed close to breakdown last night after the French company imposed a stringent set of conditions for further negotiations.

Canal Plus said it would have to assume the dominant role in management and its independence had to be respected, stressing there was no point in further talks until its conditions were agreed.

The statement came amid growing controversy in France over a possible merger with BSkyB, which dominates UK pay-television and is 40 per cent owned by Rupert Murdoch's News Corporation.

Mr Murdoch met Pierre Lescure, Canal Plus chairman and chief executive, in Paris yesterday, as the French government warned it would scrutinise any link-up.

Tensions over the issue of control have grown since BSkyB said it wanted Mark Booth, its chief executive, to take the same role in a merged company. Mr Lescure could have become executive chairman of any merged group.

Although Mr Murdoch is thought to have conceded that Canal Plus and its largest shareholder, the utilities group Vivendi, should have the biggest stake in a merged group, the issue of management has not been resolved.

Canal Plus also stressed it wanted the alliance to "respect all of Canal Plus's commitments to support cultural issues and creative [film] production in France, Italy, and more generally, Europe".

Catherine Trautmann, the French culture minister, said the government was "preoccupied" by the threat a merger might pose to the French film industry. Canal Plus is a leading investor in the production of French films.

Talks between BSkyB and Canal Plus were prompted by Mr Murdoch's bid to form a rival to Canal Plus's Telepiù digital service in Italy.

The talks later broadened to merger discussions. But analysts believe any merger would face fierce regulatory scrutiny in Brussels. The Italian government has already said it would oppose a merger.

CK Chow, chief executive of GKN, and the troop transport version of the EH101 helicopter developed jointly by Agusta and GKN's Westland business

GKN and Agusta set for helicopter deal

By Michael Peel in London

Joint venture would have combined order book of $8bn

GKN, the UK engineering group, expects this month to unveil a merger of its Westland helicopter business with Agusta of Italy, creating Europe's largest helicopter manufacturer.

It is believed the merged business, which would have a combined order book of about £5bn ($8bn), would be a 50-50 joint venture.

The deal would deepen GKN's participation in the wave of consolidation in the European defence industry. The group last year agreed to combine its tanks business with Alvis, the UK armoured vehicles maker. Agusta is a subsidiary of Finmeccanica, the Italian engineering group. Agusta already builds EH101 naval patrol helicopters in a joint venture with Westland.

Agusta and GKN believe their helicopter businesses are complementary. While Agusta makes craft mostly for civil customers, GKN's operation has a military focus.

GKN is understood to be confident that the agreement is unlikely to be undermined by competition issues. The company has been encouraged by political support in the European Union for consolidation of the defence sector.

It is understood that GKN representatives will fly to Italy on Friday for further talks. The two companies have to discuss how decisions on operational matters, such as staff changes, would be made.

GKN is set to stress that the agreement would be an equal partnership, despite the fact that its order book is considerably larger. The helicopters would be produced at Agusta's existing Italian facilities as well as GKN's plant in Yeovil.

Indications that the deal was close to a conclusion came as GKN announced annual results ahead of market expectations. Pre-tax profits rose from £406m to £707m on sales up 8.5 per cent at £3.7bn.

Profits were lifted by an exceptional credit of £248m relating to GKN's successful appeal against a US court judgment that it had defrauded 2,500 franchisees of Meineke Discount Mufflers, its US exhaust retailer. GKN had in 1996 made a £270m provision against the initial decision.

Operating profits in the industrial services division rose 31 per cent to £118m as the group experienced strong demand for its grocery pallets. "Most of this [growth] came from the basic pallet service," said CK Chow, chief executive.

Mr Chow said the group's automotive division was well placed despite a reduction in production in Europe. The company had gained market share in North America, and its exposure to emerging markets was limited.

A total dividend of 16.3p (14.75p), including a final payout of 10.55p (9.5p), is proposed, payable from earnings per share of 80.2p (39.3p).

The shares rose 62½p to 910p.

Lex, Page 12

Troubled Kellogg shakes up senior management team

By Nikki Tait in Chicago

Kellogg yesterday launched a major sweep of senior management positions and made a number of new appointments in the latest effort to get its ailing cereals business back on track.

Among those leaving the company are John Hinton, chief financial officer, and Jean-Louis Gourbin, president of European operations. Other resignations include Richard Clark, Kellogg's general counsel, and Robert Creviston, senior vice-president for human resources.

Donald Thomason, executive vice-president with responsibility for services and technology, announced plans to retire, although he will continue to work with Kellogg for some months to assist the incoming management team.

The departures come less than a month after Kellogg announced it was appointing Carlos Gutierrez as its new chief executive. Mr Gutierrez, a long-time Kellogg executive who joined the company 23 years ago as a sales representative in Mexico, is due to take up his new position in April.

The latest management turmoil follows a tough period for Michigan-based Kellogg, the world's largest maker of ready-to-eat cereals, which suffered an 11 per cent drop in operating profits last year.

The company has attempted to fight back with a mixture of cost-cutting measures, new product launches and an expansion of its convenience food interests. But Wall Street has yet to be convinced it has found a solution.

Kellogg said the management changes reflected Mr Gutierrez's desire to have his own hand-picked executives in key positions when he formally assumed the chief executive's position.

Mr Gourbin will be replaced immediately by Alan Harris, president of the Latin American operations. Kellogg said it was still looking for a new chief financial officer and general counsel.

Kellogg's shares rallied last month on news of Mr Gutierrez' appointment, but eased $$\frac{3}{16}$ to $36⅝ in early trading yesterday. This compares with close to $50 in early 1998.

Tieto to take over Swedish rival

By Tim Burt in Helsinki

Tieto, the Finnish provider of information technology services, is to take over its Swedish rival, Enator, in a €920m ($1bn) deal that will form one of northern Europe's leading computer maintenance and systems management companies.

The new group, to be known as Tietoenator, will have more than 10,000 employees and an estimated market capitalisation of €2.9bn. It is expected to compete with larger IT service providers such as Cap Gemini of France and Sema Group, the Anglo-French company.

Matti Lehti, Tieto chief executive, said the merger was prompted by rapid international expansion among the two companies' large industrial and financial clients. Their customers include telecommunications groups Ericsson of Sweden and Nokia of Finland, and ABB, the Swiss-Swedish engineering conglomerate.

"Our market place is integrating and customers are seeking pan-European suppliers on IT consulting, systems development and maintenance," said Mr Lehti, who will be the company's chief executive.

In 1997, the European IT software and services sector was valued at $139bn. Industry analysts predict it could be worth $208bn by 2001.

In the fragmented IT services market, however, Tietoenator will remain a relatively small participant compared with US groups such as International Business Machines, Electronic Data Systems and Andersen Consulting. Nevertheless, Mr Lehti predicted the enlarged company would achieve "valuable economies of scale" even though there was little overlap between their customer bases or services.

He declined to comment on possible job losses.

The announcement followed more than two years of on-off talks. Although the deal has yet to be approved by shareholders, the market welcomed the proposed transaction, with Tieto shares rising €2.40 to €40.80 in Helsinki, while Enator closed up SKr18 at SKr251 in Stockholm.

Tieto was advised by Mandatum, the Finnish investment banking group, while Carnegie of Sweden acted for Enator.

TELECOM ITALIA-OLIVETTI

ITALIAN TELECOMS OLD FINANCIAL MECHANISM COULD HELP OLIVETTI SWALLOW BIGGER RIVAL

Chinese boxes may hold the key

By Hugo Dixon

Whatever one thinks about the industrial merits of Olivetti's €52.6bn bid for Telecom Italia, it is certainly a triumph of financial engineering. Not since the miracle of the "Feeding of the 5,000", when five loaves and two fishes satisfied the hunger of a crowd, has so little been made to go so far.

Olivetti is relatively small, with a market capitalisation of €8.6bn ($9.39bn). Meanwhile, the enterprise value of the Telecom Italia group – if one includes all classes of capital, not just the ordinary shares Olivetti is bidding for – is €90bn. How can the Olivetti minnow aspire to swallow such a whale?

There are two answers: debt and "Chinese boxes". First, debt. Olivetti itself could not support anything like the debt it is envisaging assuming. But, like many corporate raiders before him, Roberto Colaninno, Olivetti chief executive, plans to use the prodigious cash flow of his target to secure his borrowings.

Second, Chinese boxes. This financial mechanism, beloved of old-style Italian capitalism, involves a series of holding companies one on top of another. Because each company in the chain only owns part of that below it, a tiny amount of equity can go a long way – a phenomenon described as capitalism without the capital.

If the Olivetti bid is the mother of all takeover battles, it also involves the creation of the mother of all Chinese boxes. At the top of the pyramid is Mr Colaninno. He and his family own 15 per cent of Fingruppo, which in turn owns 39 per cent of Bell, a Luxembourg holding company that owns 15 per cent of Olivetti. That makes Mr Colaninno the dominant force in Olivetti despite having an economic interest of less than 1 per cent of its capital.

In order to finance its assault on Telecom, Olivetti is doing two things. First, it is selling its existing telecommunications interests – the bulk of its business – to Germany's Mannesmann for €7.6bn. Second, it is launching a €2.6bn rights issue. Add in its small cash pile and it has €10.8bn to deploy.

The next level of the pyramid is Tecnost, the shell company being used to launch the Telecom bid. It will get its funds from four sources. First, Olivetti itself will pump in its €10.8bn to buy shares. Second, Tecnost will borrow €20.7bn from banks. Together, these make up the cash portion of the bid. The remaining €21bn comes from €13.7bn in Tecnost bonds and €7.4bn of Tecnost shares. Both these bits of paper will be offered to Telecom shareholders. If the bid succeeds, Olivetti will own 59 per cent of Tecnost shares.

The pyramid, though, does not stop here. In addition to ordinary shares, Telecom Italia has savings shares. These represent 29 per cent of the company's share capital but are not the subject of the Olivetti/Tecnost offer. Savings shares, another throw-back to old-style Italian capitalism, are entitled to dividends at least as big as those paid to ordinary shareholders. But they do not carry votes. In terms of controlling a company, they are therefore unimportant.

On the bottom level of the pyramid sits Telecom Italia Mobile, the world's third largest mobile communications company. Telecom only owns 60 per cent of TIM's ordinary shares. TIM also has savings shares, of which Telecom owns 20 per cent. That gives Telecom control with 58 per cent of its share capital.

So to appreciate the full extent of the empire Olivetti is seeking to control, it is necessary to look beyond Telecom's ordinary shares. The Telecom savings shares must be added along with the TIM minorities. Throw in the group's debt – €8.4bn at the Telecom level, offset by cash of €500m at the TIM level – and the group's enterprise value comes to €90bn.

There is, though, one gigantic snag. The bulk of the debt – €34.3bn, when you add bonds to bank borrowings – will be upstream at Tecnost. But the cash flow will be downstream at Telecom and TIM. This will create two headaches for Tecnost as it tries to service its debt.

First, as cash is channelled upstream through dividends, a large amount will leak out to the savings shareholders and the TIM minority.

Second, the structure is extremely inefficient from a tax perspective. One of the joys of debt-financing is that interest payments are tax-deductible. But, under Italian law, a group's accounts cannot be consolidated for tax purposes. This means that, if Tecnost's bid succeeds, the Telecom group will continue to pay corporation tax of €3.2bn a year.

On the face of it, the Telecom group has enormous cash flow. Earnings before interest, tax, depreciation and amortisation (ebitda) are expected to be about €12.8bn in 1999. But factor in minorities, tax and the need to invest, and Tecnost will not be wallowing in cash. If interest rates shot up, it could even struggle to service its debts.

Consider the maths. Of the group's ebitda, €3.6bn belongs to TIM. After subtracting its tax and investment, only €1.5bn would be left over to be distributed in dividends. That would be double the current dividend but, after minorities had had their cut, only €800m would reach Telecom.

Next look at Telecom. Do the same exercise, add in a supercharged dividend from TIM and only €3.8bn could be paid out without increasing its debt. Once the savings shareholders had had their cut, €2.7bn would flow up to Tecnost.

Assume Tecnost had to pay 5.5 per cent on its €34.3bn debt – a premium compared with most blue-chips to reflect its high leverage – and its annual interest charge would be €1.9bn. The cash flow from Telecom would be cover this. But there would not be much room for error if interest rates rose or profits sagged.

Olivetti, though, has a trick up its sleeve: it may collapse one of the Chinese boxes by merging Tecnost and Telecom Italia. This would involve giving the Telecom savings shareholders non-voting shares in Tecnost.

A merged structure would have three advantages. First, the group's tax bill would fall because interest payments would be tax-deductible. Second, 29 per cent of Telecom's cash flow would not be siphoned off to the savings shareholders. Finally, the group's interest rate would probably fall because its greater financial stability would merit a superior credit rating.

Redo the maths on the assumption that a merged Telecom/Tecnost would pay 5 per cent, and it would have €4.8bn in free cash flow (after tax and capex) to cover €2bn in interest payments. That would be much more comfortable.

This is, of course, not the end of the story. Telecom, whose board meets again today, will try to demonstrate that Olivetti's €10 a share offer is too cheap – a view shared by many.

The essential element of its defence is likely to be a merger of its own – between Telecom and TIM. It could also do something to bring the savings shareholders into the fold by offering them the chance to convert into voting shares. Telecom could equally take a leaf from Olivetti's book and gear up its balance sheet – perhaps by paying a special dividend – to cut its tax bill.

If Franco Bernabe, Telecom chief executive, can present a credible plan for turning the company around, Olivetti will have to increase its bid or retire.

But Olivetti has not used all its firepower. For a start, a merged Tecnost/Telecom could probably take on more debt. Tecnost could also offer Telecom shareholders more shares without Olivetti losing control.

Finally, there is the opportunity to strip Telecom's assets. Olivetti has already indicated it would cut Telecom's stake in TIM. Assuming it sold down its voting stake to 50.1 per cent and liquidated all its TIM savings shares, €5.2bn would be raised. Olivetti could easily raise another €10bn from selling Telecom's surplus property, non-core assets at home and some of its international assets.

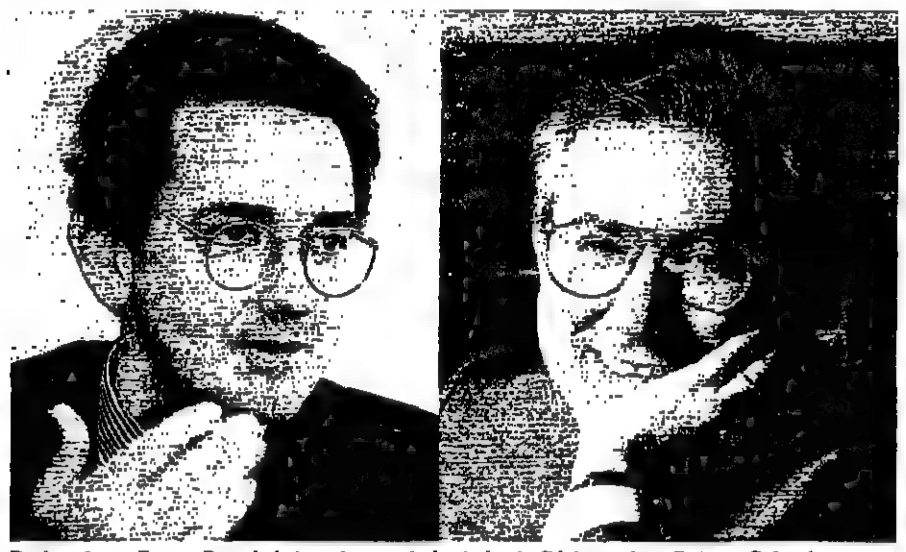
Meanwhile, a thorough asset-stripping – involving the liquidation of the entire TIM stake and all non-core assets – would raise an eye-popping €40bn. There may be more financial pyrotechnics before this ends.

UK insurer objects to bid over growth fears

Standard Life, the UK-based life insurer, is planning to vote against Olivetti's hostile bid for Telecom Italia and is seeking to harness opposition from other shareholders, writes Andrew Edgecliffe-Johnson, in New York.

The fund manager, which owns 0.4 per cent of Telecom Italia's stock, said yesterday it objected to the deal on the grounds that it would leave the company with an excessive burden of debt and stifle its future growth.

Olivetti's bid is also reported to have attracted opposition from two US shareholders, Federated Global Research and USAA Investment Management.



Boxing clever: Franco Bernabe's board meets today to beat off interest from Roberto Colaninno

Tecnost
Non-consolidated, 1999 forecasts

	€bn
Net debt*	34.3
Ebitda	0
Capital expenditure	0
Tax	0
Interest paid	1.9

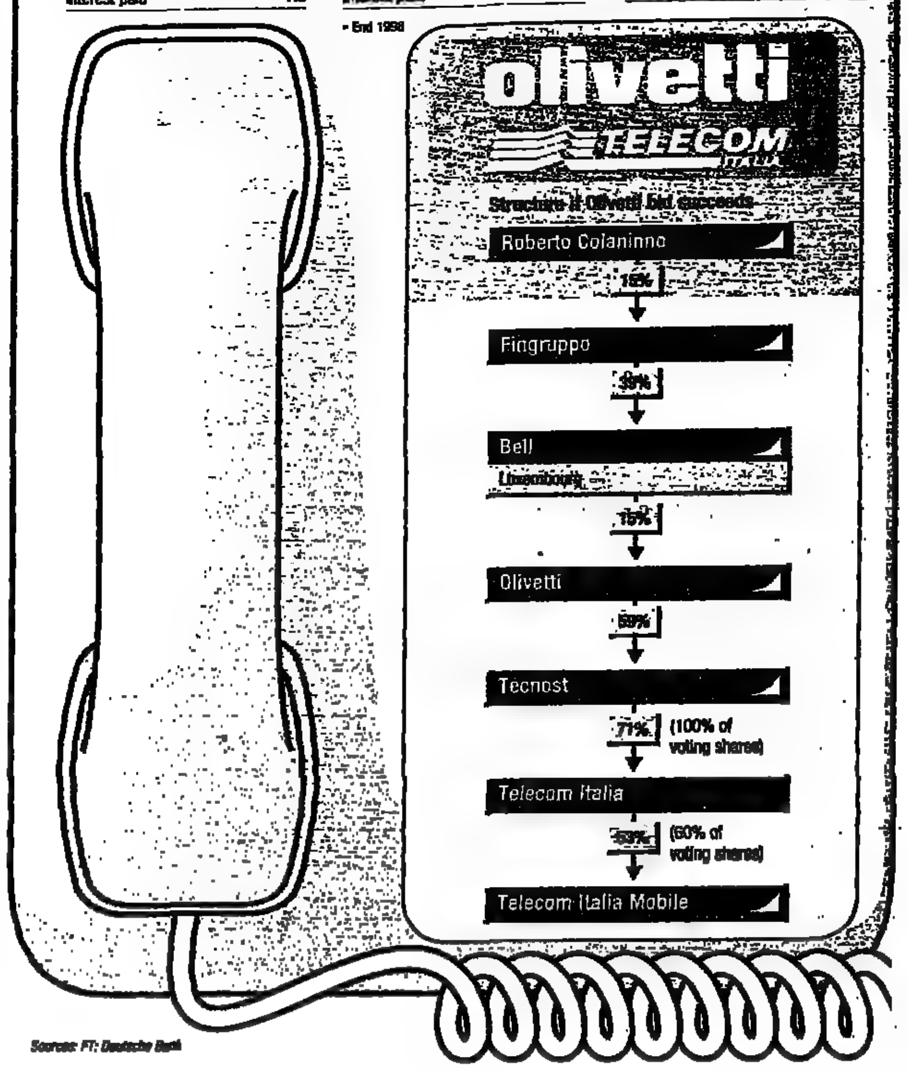
Telecom Italia
Non-consolidated, 1999 forecasts

	€bn
Net debt*	8.4
Ebitda	9.2
Capital expenditure	4.2
Tax	1.8
Interest paid	0.3

Telecom Italia Mobile
Non-consolidated, 1999 forecasts

	€bn
Net cash*	0.5
Ebitda	3.6
Capital expenditure	0.8
Tax	1.3
Interest received	0.1

* End 1998



Sources: FT; Deutsche Bank

COMPANIES & FINANCE: EUROPE

CARMAKERS FRENCH GROUP LOOKS FOR DEALS AS PROFITS DIP BELOW EXPECTATIONS

Peugeot-Citroën seeks merger opportunities

By David Owen in Paris

Peugeot-Citroën, the French carmaker, yesterday acknowledged it was looking at unspecified merger or acquisition opportunities as it disappointed the market by reporting lower than expected 1998 profits.

In what was interpreted by some as a change of tone on the subject, Jean-Martin Folz, chairman, said mergers and acquisitions were "very good as long as they permit the rapid implementation of a policy of common platforms".

He said: "One must be pragmatic and not dogmatic. We are watching the possibilities and if we find an interesting one, we will seize it."

His comments, at a time of rapid consolidation in the sector, came as the group reported a net attributable 1998 profit of FFr3.18bn, (€485m, $530m) or FFr63 a share, against a FFr2.77bn loss the previous year.

But neither this sharp improvement, nor plans for a share buyback programme nor even a proposed more than tripling of the net dividend from FFr3 to FFr9.84 a share were enough to offset the market's disappointment at a below-par result.

There was also some scepticism about the group's 1999 objectives, which call for operating profit to climb from FFr7.2bn to FFr9bn and for the operating margin from the core cars division to rise from 2.1 to 3 per cent.

"If the people with the most innovative products on the market – Volkswagen and Renault – say things are tough in 1999, it is difficult to believe Peugeot will be able to do better in isolation," said Simon Miller, vehicles analyst at Crédit Lyonnais Securities.

Earlier this week, Renault, the group's arch domestic rival, indicated it was expecting a 1999 operating margin of about 4 per cent, against 5.2 per cent last year.

Peugeot said it was aiming to sell more than 500,000 of its 206 in 1999, having comfortably beaten its 1998 target of 100,000 sales. Overall, it indicated it was aiming for worldwide vehicle sales of 2.4m in 1999, up from 2.28m.

But analysts believe the 206 might take sales from other Peugeot-Citroën models. "I don't think we will see the 206 giving the [Renault] Clio a good hiding while not affecting the 106 and 306," said Mr Miller.

Annual sales rose sharply from FFr186.8bn to FFr221.4bn. Peugeot-Citroën shares closed down 2.35 per cent at €116.30, against a 1.1 per cent decline for the benchmark CAC 40 index.

LVMH suffers court setback

By Barbara Smit in Amsterdam and David Owen in Paris

LVMH, the French luxury goods group, last night received a setback in the battle over the future of Gucci when a Dutch court effectively stripped it of the voting rights attached to its minority shareholding in the Italian fashion house's capital.

The temporary ruling will prevent LVMH from voting in an important extraordinary meeting called by the French group to vote on its proposal that a nominee director be appointed to the Gucci board.

This means, in effect, that Gucci's independent shareholders will decide whether to endorse the appointment of the nominee, which was opposed by Gucci management, at the meeting scheduled for March 23.

However, LVMH last night hinted that it might now rethink its decision to call the meeting.

The court also froze the votes attached to new shares issued recently by Gucci to a newly created employee share option plan (Esop), in a bid to dilute LVMH's shareholding from 34.4 per cent to 25.6 per cent and expressed the view that this poison pill was probably contrary to Dutch law. The court said LVMH did not appear to have behaved like a reasonable shareholder by setting its intentions out openly and in good faith.

Amid tense court room scenes at the end of the hearing, Bob Singer, chief financial officer of Gucci said: "It is an excellent result. It will allow the independent shareholders to express their views about LVMH's proposal."

A member of the LVMH team described the decision as "slightly imbalanced". Bernard Arnault, LVMH chairman, was said to be "pleased" that the court acknowledged the doubtful legality of the Gucci poison pill. But he was also disappointed that LVMH would not be able to make itself heard at the planned extraordinary shareholders' meeting.

Last night's developments came at the end of a day of legal proceedings launched by LVMH in the Amsterdam Court of Appeal. Gucci is being advised by Morgan Stanley and LVMH is being advised by Goldman Sachs.

Aegon turns in 'beautiful year'

By Gordon Cramb in The Hague

Aegon, the insurance group that is the star of the Amsterdam bourse, yesterday produced a 24.5 per cent increase in annual net profits in what Kees Storm, chairman, called "another beautiful year".

The Fl 2.75bn (€1.25bn, $1.36bn) outcome just met its most recent forecast made last November. For the current year it projected an earnings rise of 18-20 per cent, but analysts viewed that as caution rather than a signal of further slowdown. None had expected the company to match its 41 per cent growth rate of 1997.

Mr Storm said the latest projection depended on completing by midyear its $9.7bn takeover of the San Francisco-based Transamerica, which was agreed two weeks ago. The deal, which makes Aegon the third biggest life insurer in the US, is expected to contribute 3 per cent to the bottom line this year and next.

As it was, the US brought the strongest impetus to growth in Aegon's life business in 1998, as the benefits flowed through from a previous takeover in that market. With the insurance operations of Providian, acquired in mid-1997, making their first full contribution, life results at an operating level were 31 per cent ahead at Fl 3.44bn. The Americas accounted for three-quarters of that rise.

Overall premium income at Fl 25.5bn was ahead 21 per cent, though stripping out the effects of acquisitions and divestments still left an increase of 16 per cent. Investment income was 25 per cent ahead at Fl 11bn, although growth on a like-for-like basis was only 7 per cent.

Autonomous growth in net profits was 13 per cent, ahead of the group's 10 per cent long-term target.

Mr Storm said figures like those showed there was no need to merge with a bank to sell its products, though it would continue to seek co-operation arrangements. "We are keen to dance with banks, but we don't want it to end in marriage."

Aegon expects a book profit of some Fl 1bn from relinquishing majority control of Bank Labouchere, an Amsterdam investment bank which is merging with the rival AOT.

It has put no date on the disposal, however, and the gain will not flow to the profit and loss account.

Henk van Wijk, chief financial officer, stressed the conservatism of its accounting policies by saying that adopting the conventions used by one Dutch competitor would have inflated last year's profits by 42 per cent.

Oslo sells 16% Christiania stake

By Valeria Sköld in Oslo

The Norwegian government yesterday announced its largest public offering when it unveiled plans to sell a 16 per cent stake in Christiania Bank, in a sale worth up to NKr3 bn ($378.8bn).

The offering of 90m shares in the country's second largest bank will reduce the stake held by the Norwegian government's Bank Investment Fund to one-third. It is part of the government's plans to reduce its majority holding following earlier privatisations.

The offer period will be between March 8-19 with an institutional placement to Norwegian and international investors and an offering to the Norwegian public. A final price will be fixed on March 22.

The fund was able to launch the share sale only one month after appointing advisers, as pre-marketing indicated the offering would be several times subscribed, said Jan Hopland, managing director of the fund.

The offering comes ahead of a similar sized offering of the state's majority holding in Den norske Bank, Norway's largest bank. The planned offering had been delayed since advisers were appointed in March last year because of a change in chief executive. The fund expects to take a decision on Den norske Bank in the first half of this year, Mr Hopland said.

Christiania Markets, a brokerage that is owned by Christiania Bank, will lead the public offering, which will be sold in minimum blocks of 200 shares and up to 300,000.

The fund plans to visit 24 Norwegian cities with 30 presentations to avoid a repetition of the situation in 1995, when the Norwegian public expressed little interest in the state's reduction of its stake from 71 per cent to 51 per cent.

Salomon Smith Barney, lead adviser for the institutional syndicate, will next week begin a road show targeting institutional investors outside the country.

Norwegian and international investors will be allowed to bid for a minimum of 300,000 shares, as long as their total share capital in Christiania Bank does not exceed the country's 10 per cent limitation on ownership.

NEWS DIGEST

BREWING

Heineken profits rise better-than-expected

Heineken, the Dutch brewing group, yesterday posted a better-than-expected 29 per cent profit rise in 1998, but warned that earnings growth was set to slow this year. Karel Vuursteen, chairman, said net profits of Fl 981m (€445m, $491m), up from Fl 761m, were boosted by changes in the product mix, a favourable dollar-guilder rate and the consolidation of recent takeovers including Brewpole, Poland's largest brewer that Heineken bought last year. Many analysts had forecast earnings would rise no more than 25 per cent. Mr Vuursteen pointed to uncertainties over economic performance (especially in Asia), summer weather, currency swings and shifts in excise duty. "We'll see an increase [in profit this year], but it won't be as great as in 1998." Heineken stock closed 5.3 per cent down at €44.85. Group operating profits were 21 per cent up at Fl 1.45bn. **Jeremy Gray, Amsterdam**

Lex, Page 12

NETHERLANDS

Rabobank maintains ratios

Rabobank, the Dutch co-operative financial group, kept its capital ratios intact last year in spite of turbulence in world markets and strong increases in business volumes. Its Bank for International Settlements ratio remained at 11 per cent while tier one core capital was held at 10 per cent. The achievement helps it preserve its AAA rating. Assets grew 28.6 per cent to Fl 550.3bn (€249bn, $273bn). Funds under management jumped 51 per cent to Fl 197bn. Net profit rose 8.1 per cent to Fl 2.06bn.
Gordon Cramb, Amsterdam

AIRLINES

SAirGroup lifts profits

SAirGroup, parent of Swissair, increased its net profit by 11 per cent, to SFr361m ($248m) in 1998 but its decision to hold its dividend at SFr4 a share reflects its caution about the current year. SAirLines, the group's airline operations which account for half the business, increased operating profits 34 per cent to SFr354m. Capacity was increased 11 per cent. A 13.2 per cent growth in economy-class passengers was partly offset by a 9.1 per cent drop in first-class passengers. **William Hall, Zurich**

NORWAY

Aker RGI changes strategy

Aker RGI, Norway's largest industrial holding company, yesterday unveiled a change in strategy, plans to sell assets and a fall in pre-tax profits from NKr755m to NKr738m ($93m) on 36 per cent higher revenues of NKr34.8bn, after losses in its seafood units. The company will move away from being an industrial holding company and towards being mostly an investment company. It said it would re-organise Aker Maritime, a Norwegian oil service company, and Scancem, a Swedish cement company, together with its seafood and shipyard interests, under industrial holdings. Scancem would later be sold. The company proposed a dividend of NKr1 for 1998, which may be increased this year after the sale of its shares in Scancem. A shares closed NKr2 higher at NKr92. B shares rose NKr1 to 84. **Valeria Sköld, Oslo**

Greeks in euro scramble

Banks gear up for likely entry with battle for Ionian stake, writes **Kerin Hope**

The battle for market share in Greece's banking sector is heating up, with the government poised to sell 51 per cent of Ionian Bank, the country's fourth-largest financial group.

Two aggressive local banks, EFG Eurobank and Piraeus Bank, are the front-runners to buy Ionian. Alpha Credit Bank, the biggest private Greek bank, is also among shortlisted bidders due to submit binding offers on March 26.

The sale, worth Dr120bn-Dr130bn ($409m-$444m) will be Greece's biggest bank privatisation. The proceeds will strengthen the balance sheet of Commercial Bank, its parent group, which is due to be sold next year.

Analysts say consolidation in the sector, which saw six small Greek banks – four state-owned and two private – change hands last year, will continue as bigger banks try to bolster their position before Greece's probable entry to the euro zone in 2001.

"There are still too many banks for the size of the economy," said Claire Gouzouli, a partner in First Consulting, a London-based bank consultancy. "Although there have been ownership changes, restructuring hasn't yet started."

Ionian's market share has dropped from about 7 per cent to 5.5 per cent, analysts say. This resulted from a six week strike by employees demanding job guarantees in the terms of sale.

Ionian boasts a strong deposit base, however, a comparatively small loan portfolio and a larger branch network than any of Greece's private banks.

"Whoever wins Ionian is sure of being one of the players in the next round of consolidation," said Evrikos Sarsentis, head of research at Telesis Securities in Athens.

The government's first attempt to sell Ionian, through a tender process on the Athens bourse, came unstuck last summer. After frenzied buying by domestic investors, Ionian's stock market capitalisation soared above Dr450bn before the Russian crisis erupted.

A Dr136bn offer by Eurobank in August for 51 per cent of Ionian reflected falling prices in emerging markets. It was rejected as too low because the government feared an adverse reaction from disappointed investors.

Share prices of Greek banks have since rebounded to record levels. But while shares in the banking sector jumped 23 per cent in the first two months, Ionian's performance lagged behind, increasing by 15.5 per cent.

The tender process has been abandoned in favour of a negotiated sale, with J.P Morgan, the international investment bank acting as the government's adviser.

Eurobank last year increased its capital base to Dr190bn to support faster expansion. It bought Bank of Athens from Korea's Hanwha group and Cretabank in a privatisation sale, as well as a 20 per cent in Ergobank, Greece's most profitable private bank. Eurobank's merger this month with Bank of Athens, which is listed in Athens, gave the group its first stock market quotation.

Eurobank, the only retail operation in a chain of private banks controlled by Latsis, the London-based Greek oil and shipping group, has built a market share of about 6 per cent in Greece. It has also become the first Greek bank to attract a big German investor as a strategic partner. Deutsche Bank last year acquired a 10 per cent stake.

But Piraeus Bank, controlled by a group of local entrepreneurs, will mount a strong challenge for Ionian. In December it bought a controlling stake in Xiosbank, a fast-growing retail bank.

Piraeus Bank's share price has jumped 60 per cent since the start of the year.

Despite the rush to privatise, retail banking in Greece is dominated by state-controlled groups. Foreign banks in Greece have focused on corporate and treasury business.

But consolidation and Greece's prospects for joining the euro, have changed the picture. "It's assumed by the markets that Greece will qualify for the euro," said Ms Gouzouli. "So you'd expect to see more foreign banks looking for a stake in one of the bigger private banks."

Against privatisation: Ionian Bank governor Haris Stamatopoulos ran into protests from union members last year Reuters

Flemings seeks Cairo base with CIIC merger

By Mark Huband in Cairo

Robert Fleming, the UK-based investment banking and brokerage company, yesterday merged its Egyptian operation with the Cairo-based CIIC as the first stage of a strategy aimed at establishing Cairo as its regional financial centre.

The new company, Fleming CIIC Securities, is the result of a series of mergers between the constituent parts of both companies. Flemings is currently part of a joint venture brokerage company, Fleming Mansour. This is to be merged into Intercapital Securities, the brokerage arm in which CIIC has an 80 per cent stake, giving the merged company a 16 per cent share of the Egyptian brokerage market.

Along with the creation of the new brokerage operation, CIIC is to spin off its asset management operations to the new Fleming CIIC operation, which will be capitalised at $100m and will also develop the group's corporate finance arm.

CIIC, whose institutional shareholders are Commercial International Bank and National Banking of Egypt, will be re-established as a holding company engaged in leasing, insurance and direct investment, through which it will hold its 50 per cent stake in the new Fleming CIIC joint venture. CIIC will also retain its private equity portfolio.

Robert Fleming approached CIIC about a possible merger last year, when the brokerage partnership between CIIC and ING-Barings since 1997 had failed to expand according to expectations. Barings held a 29 per cent stake in Intercapital Securities, which it agreed to sell to CIIC before the new arrangement with Robert Fleming was agreed.

The merger is a significant step towards translating into reality the hopes among Cairo financiers of developing a regional business.

"We want to be the major player in the region, and the ball is going to run very quickly," said Yasser el-Mallawany, CIIC managing director. "We are merging our corporate penetration and strength with international research."

CIIC, which is capitalised at E£600m ($176m) and has handled business worth E£5.5bn since its establishment in 1994, has a local client base that foreign companies have found difficult to match without a well-established local partner. The merger of the companies will now allow CIIC access to Flemings' regional network.

The decision to locate a regional office in Cairo suggests that the size of the Egyptian market and its location may now lead to Cairo succeeding in attracting global financiers who had considered Beirut as the city of preference in the region.

The creation of Fleming CIIC means there are now two leading companies in the Egyptian market. The other is EFG-Hermes, which has a similar spread of activities and has already established a regional reputation in investment banking but has no global partner. Some analysts now believe that EFG-Hermes is likely to seek such a partnership.

Airline caught in rough patch

Air Afrique is battling against debt and searching for a new managing director

By Joel Kibazo

The opening yesterday in Paris of a court case against Air Afrique will once again turn the spotlight on the west African carrier, which was brought to the brink of collapse last year by a mountain of debt.

The case is being brought by the airline's creditors, led by Credit Lyonnais, the French bank, to demand repayment of leasing arrears of about $200m owed on four Airbus aircraft. That amount is the largest part of the group's total debt of about $300m.

Although airline officials and creditors expect an adjournment after opening arguments, the case is another sign of the continued turbulance at the carrier.

The airline's principal owners – 11 former French colonies and Air France, (which has a stake of around 12 per cent) failed at the weekend to appoint a new managing director.

The position became vacant after Sir Harry Tirvengadum resigned suddenly at the end of January for health reasons after 21 months at the helm. The carrier's main problems date back to 1994. Having taken delivery of four Airbus A-310 jets between 1991 and 1993, Air Afrique was hit by the 1994 devaluation of the CFA franc which doubled its debt.

Analysts say Air Afrique already had a history of mismanagement and political interference.

The Congo war in the summer of 1997 led to the suspension of flights to Brazzaville, further worsening its financial situation.

Last July, creditors seized four Airbus jets, nearly a quarter of the carrier's fleet, for non-payment of debt.

Yet despite that catalogue of woes, much has changed at Air Afrique in the past 18 months.

Analysts say Sir Harry's main achievement was the introduction of tight cost controls. The repossession of the aircraft meant a big reduction in leasing repayments – insofar as these were being made – while at the same time Sir Harry increased use of the remaining fleet, helping to boost revenue.

Routes have been restructured but critics say the airline has yet to tackle the political minefield of cuts to unprofitable routes

As a result, the company hopes in June to report an operating profit of about $14m for 1998, the first in six years, and that figure is expected to more than triple in 1999 to about $50m.

The board in December decided to accelerate the privatisation programme and member countries have already agreed to a reduction in their holding from 70.4 per cent to 51 per cent as an initial step. Air France remains coy, but sources close to Air Afrique believe the French group has already been persuaded to become a strategic partner.

A route restructuring programme has also been carried out. Last week Air Afrique said it was increasing the number of flights between Abidjan, its Ivory Coast base, and New York and also between Abidjan and Johannesburg after it leased a new Boeing 767 aircraft.

However, critics say the airline has yet to tackle the political minefield of cutting out all unprofitable routes and staff have opposed some plans fearing they would lead to big job cuts.

But airline officials are aware the recent changes will have been in vain if no definitive way is found to tackle the mountain of debt.

At the weekend, ministers from member countries decided to pursue an idea first raised last year of setting up a separate company to take over the carrier's debt and lease out the four aircraft that triggered the latest crisis.

The meeting also identified fresh sources of financing in shareholdings that the airline has in two companies. The plan is for Air Afrique to sell the stakes and use the proceeds to create the new company.

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Euroweek Asia 1999
Best Deal of the Year – EGAT

Euromoney 1998
Best Arranger of Project Finance Loans
#2 Arranger of Energy Finance Loans

Finance Asia 1998
Best Eurobond Deal of the Year – EGAT
Deal contributing most to the development of Asia's debt markets – EGAT

International Financing Review 1998
Deutsche Mark Bond of the Year – KPN
Deutsche Mark Bond House of the Year
Dutch Guilder Bond of the Year – Réseau Ferré de France
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ABN·AMRO

Consumer confidence lifts Kmart earnings

By Andrew Edgecliffe-Johnson in New York

Kmart, the discount stores group, gave further evidence yesterday of how US retailers are being buoyed by the irrepressible American consumer. Its fourth-quarter earnings rose from $186m to $353m as its stores were redesigned to bring customers in more frequently.

Three in four of the retailers that have reported fourth-quarter results have beaten analysts' expectations, according to First Call, the earnings data group.

The favourable economy has not affected all stores equally, however. Ken Perkins of First Call said the average earnings growth from clothing retailers leapt fom 15 per cent in 1997 to 39 per cent for 1998. In the broadline, or diversified, retail segment the growth was 15 per cent, unchanged from 1997.

Growth at specialist retailers, dragged down by Toys R Us, slowed from 19 per cent to 12 per cent last year, he added, but is forecast to rebound to 24 per cent in 1999. Retailers that missed out on this growth included JC Penney, the restructuring department stores group, smaller clothing retailers with weaker brands and several shoe retailers.

Strong performers have included Gap, Wal-Mart, and Tiffany, which yesterday reported a 24 per cent earnings rise for the year and resilient growth even in the uncertain Japanese market. Tiffany's shares rose 6 per cent yesterday.

Kmart, which is believed to be pursuing an alliance with a large grocery retailer, has driven through an ambitious store conversion programme to claw its way back from financial crisis.

Almost 1,250 of its 2,161 stores have been converted to the Big Kmart format, and another 586 will be converted this year.

The addition of perishable groceries to the range has persuaded shoppers to visit more regularly. It is also part of a strategy by both Kmart and Wal-Mart, the giants of America's $180bn general merchandise industry, to encroach on the $430bn territory of the food retailers.

Kurt Barnard, president of Barnard Retail Trend Report, a forecasting firm, said Kmart had "won its place in the sun".

The group's report of 5.8 per cent same-store sales growth in February confirmed that the retail rally was still going strong.

"We have very low unemployment, very high new job figures and low interest rates; the price of gasoline is very low, consumer confidence is high, manufacturing activity is rising and house sales are at a record."

Mr Barnard predicted that consumer spending would continue to rise for at least six months. Analysts said the conditions were also favourable for further consolidation in retailing.

Late on Tuesday, Jones Apparel, a women's clothing group, announced a $1.4bn takeover bid for Nine West, a shoe retailer that has suffered from weakness in the footwear market.

Goldman seeks end to testing time

By Tracy Corrigan in New York

The transition of Goldman Sachs from investment banking partnership to public company was always destined to mark a period of unprecedented change for the elite Wall Street firm. But the dramatic twists along the path to its initial public offering have proved testing for a firm which has prided itself on the strength and stability of its culture.

Jon Corzine, who endorsed the plan to go public amid opposition from some of his most senior colleagues, has already abdicated his position of co-chief executive officer. Though he remains chairman, he is likely to leave the firm shortly after the IPO. "He is the Gorbachev of Goldman," remarked one observer.

The rise of Hank Paulson, now co-chairman and sole chief executive officer, is seen by many in the firm as symbolic. Mr Corzine came from the trading side of the business, while Mr Paulson is an investment banker.

Some say that Mr Corzine has carried the can for the poor performance on the bond trading side of the business amid market turmoil last year, arguing that he had allowed the firm to become too involved in proprietary trading. But there were also personal management differences at the top of the firm, which as a partnership has to be managed by consensus. While Goldman, like many Wall Street firms, reduced its market exposure in the wake of last autumn's market turmoil, it remains an institution with dual strength in investment banking and trading.

However, the saga of the last year – the IPO debate, the market turmoil, the rescue of hedge fund Long-Term Capital Management, in which Mr Corzine and Goldman played key roles, and then the shelving of the IPO – have undoubtedly taken their toll.

Competitors harbour hopes that the manically driven investment bankers of Goldman Sachs may have been distracted and its pristine image dented.

"On an absolute basis, Goldman doesn't look as good as it did, but then neither does Merrill Lynch," said one analyst, citing problems at Merrill over its internet strategy and, like Goldman, a poor performance in fixed income in the second half of last year. Goldman still tops the global mergers and acquisitions league tables for the first two months of this year, according to Securities Data. However in global debt underwriting rankings it has slipped to sixth place in the first two months, from third in the same period a year ago with a market share down from 8.8 to 5.7 per cent.

In the light of all this, ending a period of uncertainty by bringing the IPO as soon as possible in relatively favourable market conditions, seems desirable, despite the lower valuation the firm will gain due to the broad fall in valuations in the sector and the fourth quarter's slip in earnings.

Even at a discount to the multiples enjoyed by Merrill Lynch and Morgan Stanley Dean Witter, the firm is likely to be valued at more than $20bn. And by the time Goldman comes to the market, it hopes to have a second strong quarter of earnings under its belt, which should help whet investors' appetites.

According to one analyst, investors who want to play the globalisation of investment banking will welcome the chance to diversify their investments in Merrill and Morgan Stanley. Though the latter is riding high, investors would not want to have all their eggs in one basket, the analyst said.

Furthermore, while stock market valuations are below their peak last year, "the market is robust and consensus estimates are moving up", said Sallie Krawcheck, an analyst at Sanford C Bernstein, who believes there is still some upside for investment banking stocks.

"Goldman seems to have slipped," says Raphael Soifer, financial services analyst at Brown Brothers Harriman. But it is "still a top three firm in a business in which it is very important to be a top three firm".

Rise: Hank Paulson's promotion is seen as symbolic

New push for late trading by individuals

By John Labate in New York

The drive to expand US equity trading hours for individual investors took a step forward yesterday, as Eclipse Trading, an electronic communications network based in New York, announced a subscriber partnership with Madoff Investment Securities and Discover Brokerage, the online trading division of Morgan Stanley Dean Witter.

The agreement is unique in that when the new system launches this summer, it is expected to give individual investors the first major access to after-hours stock trading in much the same way that Instinet, the ECN owned by Reuters, allows institutions to trade after the market has closed.

Eclipse is now in talks with other firms and expects at least three more brokerages to sign on by its launch. Eclipse's after-hours trading system, known as IndivEX, will initially allow trading in stocks between 6pm and 9pm in an attempt to funnel order flow and raise liquidity in its early stage. As many as 300 large Nasdaq-listed stocks are expected to be available through the system.

The new system, however, faces a series of obstacles, including the need to have sufficient liquidity to allow orders to be processed. In addition, Nasdaq and the New York Stock Exchange are said to be in talks to expand their own trading hours. Demand from individual traders, however, appears to be strong.

"Customers of online brokers are clamouring for access to after-hours trading," said Alan Alper, analyst at online research firm Gomez Advisors.

As many as 40 per cent of orders are placed after the New York markets have stopped trading, a period when many announcements, including companies' earnings results, are released, said Mr Alper.

"What we have done is take into account the special needs of individuals trading after hours," said Michael Satow, president of Eclipse. Orders will be limited to no more than 5,000 shares per order per side of a transaction.

In addition, safeguards have been put in place to combat market manipulation by large investors.

Eclipse was founded in 1997 by two former lawyers at the Securities and Exchange Commission, the main US stock market regulator.

MCI and Bell Canada forge alliance

By Scott Morrison in Toronto and Richard Waters in New York

MCI WorldCom, the US telecommunications group, and Bell Canada, the Canadian carrier, have formed an alliance to provide customers with seamless global services.

Some telecoms analysts speculated the move could lead to greater integration between the two companies.

Under the agreement announced yesterday, MCI will route its Canadian traffic through Bell Canada, a wholly owned subsidiary of BCE, the country's largest telecoms group, while Bell will source its non-Canadian customer requirements from its US partner.

The agreement, to become effective in early 2000, replaces an alliance between MCI WorldCom and the Stentor group, the BCE-led alliance comprised of Canada's regional telephone companies. The alliance all but dissolved as members jockeyed for dominance in the deregulated Canadian market.

The alliance strengthens both companies' competitive positions across the US-Canada border, the world's largest business telecoms corridor. BCE has been seeking a US partner to develop its North American and global capabilities, while MCI wanted to secure a partner through which it could provide its On-Net services in Canada.

MCI has been among the most aggressive international carriers in building facilities to handle traffic for its big corporate customers. It has built local networks in European business centres and owns a 44 per cent stake in Mexico's Avantel.

MCI said the Bell Canada alliance had not been formed as a forerunner to an eventual equity investment in the carrier, although one source familiar with BCE said the Canadian company had not ruled out an equity sale to a US carrier.

"Our primary desire is to own assets 100 per cent, but there are regulatory or business reasons why we can't always do that," said Walter Schonfeld, senior vice president at MCI. Canadian regulations, he added, "are not yet as friendly as they might be to foreign ownership of assets", and MCI had "a fairly substantial need to get into the market quickly".

Industry observers said it was probably only a matter of time before regulators relaxed foreign ownership restrictions. But it has been argued that Jean Monty, BCE chief executive, would not be willing to relinquish control of the company.

NEWS DIGEST

LIFE SCIENCES

Monsanto rises on report of talks with DuPont

Shares in Monsanto, the US life sciences group whose interests range from agricultural genetics to pharmaceuticals, rose $2¾ to $46¾ after a US newspaper report that the company – which last year failed to complete a $70bn merger with American Home Products – was having preliminary discussions with DuPont, the US chemicals group.

There have been suggestions since late last year that the boards of both Monsanto and DuPont had approved the opening of exploratory merger discussions, although neither company has provided any official confirmation. Both again declined to comment yesterday.

But analysts have remained sceptical that a deal would be done – partly because of the difficulty of valuing some of Monsanto's technologies, and partly because of the personalities involved, coupled with Monsanto's individualistic corporate culture. Many pundits believe that similar issues were a significant factor behind the collapse of the AHP deal. The New York Times report itself said that unnamed executives who had been briefed suggested that the talks might go no further.

Nevertheless, DuPont is thought to be looking for acquisitions, after deciding to shed its Conoco oil business and stating its desire to expand on the life sciences side. On the agricultural genetics side, it has already invested about $1.7bn in a broad technology alliance with, and a minority stake in, Pioneer Hi-Bred, the largest seed corn supplier in North America and business rival of Monsanto.

Monsanto is smaller than many of its competitors in both pharmaceuticals and biotechnology. Although the company has said repeatedly it believes this potential disadvantage can be addressed by joint ventures and partnership arrangements, access to larger financial resources and a bigger distribution network were seen as solid reasons behind the AHP merger plan.

Nikki Tait, Chicago

MEXICAN RETAILERS

Heavyweights bid for Salinas

Two of Mexico's leading retailers are vying for control of Grupo Salinas y Rocha, a bankrupt retail chain put on the auction block on Tuesday. Ricardo Salinas Pliego, owner of Elektra, Mexico's largest electrical appliance chain, wants to regain control of the group founded by his great-grandfather at the beginning of the century.

He is up against another Mexican heavyweight, Grupo Carso. Headed by Carlos Slim Helú, Mexico's richest man, the conglomerate has ownership stakes in Mexico's telecommunications giant, Telmex, and several shopping centres and retail companies. Carso owns Sanborns, a local chain of department stores and restaurants and in 1997 bought out the foundering Mexican division of Sears, the US chain.

The winner of the tender, expected to be announced on Friday, will assume an estimated $100m in debt as well as a steadily deteriorating balance sheet.

Salinas y Rocha, which has 86 furniture and appliance stores and 10 department stores, announced a 13 per cent drop in sales for 1998 and a 35 per cent decrease in sales in the fourth quarter. In a move to clear the way for the upcoming sale, the board of directors announced the removal of several executives from leading management positions in Salinas y Rocha.

Andrea Mandel-Campbell, Mexico City

ALUMINIUM

Reynolds hit by low prices

Reynolds Metals, the US aluminium producer, yesterday warned it would probably only break even in the first quarter of 1998 because of the low level of aluminium prices. "The current London Metal Exchange price estimate for the quarter of 55 cents a pound is 13 cents lower than the year-ago quarter," it said yesterday, noting that in the 1998 quarter it made $58m.

"This is an all-time low, adjusted for inflation . . . while Reynolds expects to offset part of the effect of low prices with improved costs, lower interest expense and higher value-added primary aluminium sales, operating earnings for the first quarter will be about break-even," it said.

But the company also said that it hoped that it would still be able to match last year's performance during 1999 overall, assuming that prices are more favourable in the next nine months.

"Later in the year, we will benefit from increased sales of our packaging and consumer products, with the fourth quarter being the strongest due to the holiday season," it said. **Nikki Tait**

push for
trading
individuals

to rises on report
with DuPont

lights bid for Salinas

hit by low prices

JAPAN *TRUCKMAKER ENCOURAGES EARLY RETIREMENTS IN ATTEMPT TO LOWER COSTS*

Hino to cut 10% of white-collar staff

By Alexandra Harney in Tokyo

Hino Motors, the leading Japanese truckmaker in which Toyota has a 20 per cent stake, is to cut nearly 10 per cent of its white-collar workforce by encouraging workers to retire early or firing them if necessary.

The move will cut 400 of the 4,500 administrative staff, and marks a significant departure from earlier plans. It is the first time Hino has said it would dismiss employees as part of its cost-cutting plans.

Until now, job cuts at most Japanese companies have involved transfers to subsidiaries or affiliates, or early retirement programmes.

Hiroshi Yuasa, Hino president, said in an interview with the Nihon Keizai newspaper that he would dismiss workers if the number of staff that volunteered for early retirement did not meet company targets.

However, the company said it would resort to dismissals only if other measures failed to achieve results. "We have said repeatedly that we will take every possible measure to generate a profit next year, and dismissals are the last of those measures."

Hino also warned that losses in the fiscal year ending this month would be larger than the Y9.2bn ($76.5m) forecast last October. At the interim stage, parent net losses had ballooned to Y21.4bn, against profits of Y2.86bn last time.

The job cuts are the latest in a series of measures unveiled in recent weeks. Last month, Hino said it would merge its production and sales operations in October to lower costs.

Hino's moves underscore the problems facing Japanese truck manufacturers amid the prolonged domestic recession and the Asian economic crisis. Truck sales plunged 20.1 per cent last year to their lowest levels since 1977 as companies cut capital investment to offset declining profitability, leaving the industry with heavy overcapacity and growing inventories.

The Japanese government has been providing financial assistance to truckmakers to cover the costs of keeping underutilised workers on the payroll.

Shares in Hino surged 5 per cent, or Y19, to close at Y897.

Colonial on look-out for more acquisitions

By Gwen Robinson in Sydney

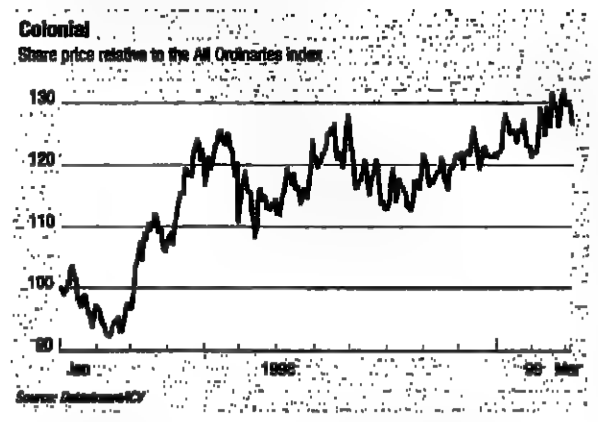
Colonial, the Australian banking and insurance group which last year spent more than A$2.2bn to acquire the Australian operations of UK insurers Prudential and Legal & General, said yesterday it was searching for further acquisitions in the UK, Australasia and Asia.

The rapid absorption of the UK acquisitions helped drive Colonial's net profit up 35 per cent in the year to December to A$306m (US$190m), above expectations. The group also acquired the Hong Kong unit of the UK's Guardian Assurance, and last month said it would buy the Asian and UK businesses of US-based funds manager Nicholas-Applegate as well as a 51 per cent stake in National Bank of Fiji.

The group's international expansion plans were also helped last year by China's decision to grant Colonial a licence, the first for an Australian group.

Colonial's rapid expansion in 1998 almost rivalled the aggressive expansion of AMP, Australia's largest insurance and financial services group, which last year acquired Henderson, the UK fund manager, National Provident Institution, also of the UK, and 57 per cent of GIO Australia, a general insurer.

Colonial
Share price relative to the All Ordinaries index



Source: Datastream/ICV

"Colonial achieved a significant increase in size and market position during the year as a result of a number of major acquisitions, and the group is effectively unlocking the efficiencies of scale," said Peter Smedley, managing director.

Revenue growth was driven by the group's increased scale, and the success of its "allfinanz" approach, Mr Smedley said. As a result of the mergers and acquisitions, Colonial generated cost savings of more than A$90m by the end of 1998, more than double the level of savings it had expected.

Most of the group's profit growth stemmed from insurance and superannuation in Australia, which earned A$87m in 1998 compared with A$30m the previous year. Colonial said it had used its newly acquired distribution channels to cross-sell banking, insurance and funds management products, and aimed to cross-sell to 20 per cent of its expanded customer base by the end of 1999, up from 15 per cent last year.

Colonial's Australian financial services unit, including insurance, superannuation and banking operations, achieved a profit of A$212m, up from A$154m in 1997, including contributions from the merged businesses.

Excluding Legal & General and Prudential's contributions in the second half of the year, the Australian insurance and superannuation result was A$14m or 45 per cent higher than in 1997.

Ayala plans to issue new class of shares

By Tony Tassell in Manila

Ayala Corp, the blue-chip Philippine conglomerate, has surprised the country's financial markets with a plan to issue a new class of shares with voting rights less than existing ordinary stock.

Ayala said yesterday its board had approved the issue of up to 300m of the new shares – called Common X shares – although it made clear it had no immediate plans to do so.

At current rates, the shares would be worth 39bn pesos ($1bn). The company's authorised capital would also be expanded from 17bn pesos to 30bn pesos.

The X shares will be the equivalent of 10 normal shares, but will carry only one vote.

Ayala said this would allow the company to raise funds from international investors without breaching a regulatory ceiling on foreign ownership of the company's common equity of 40 per cent.

Currently, the company is about 30 per cent owned by foreign investors.

Analysts said the move would allow the Ayala family to raise capital while minimising dilution of its 58 per cent stake in the company, allowing it to retain control of the conglomerate.

Matthew Sutherland, head of research at Paribas Asia, said the move would significantly increase liquidity and free float in the company.

"The board believes that the Common X shares will give the company the flexibility, over the long term, to raise additional equity capital from the international investment community," Ayala said in a statement.

"The current economic situation has created significant opportunities for those with access to capital resources. The company intends to position itself to be able to take advantage of potential strategic opportunities that may arise in the near future."

Ayala's board also approved a 20 per cent stock dividend, granting shareholders of record at May 14 two new shares for every 10 shares held.

The dividend will be paid on June 23.

The company will seek shareholders' approval for the creation of the new shares and the stock dividend during the annual meeting scheduled on April 23.

Thai oil group back in black

By Ted Bardacke in Bangkok

PTT Exploration and Production, the listed upstream unit of state-owned Petroleum Authority of Thailand, said yesterday it recorded a net profit of Bt2.31bn ($61.5m) in 1998, compared with a loss of Bt3.31bn the year earlier.

The profit was largely explained by a foreign exchange gain of Bt3.01bn, from the strengthening of the baht during 1998. A foreign currency earner, PTTEP has most of its debt in hard currencies and the changes in the value of that debt is shown as income or loss on the balance sheet.

Some analysts expressed reservations that without the foreign exchange gain, the company would have posted an operating loss, particularly on the back of 49 per cent increase in expenses. Revenue was up 60 per cent on the year to Bt12.25bn.

PTTEP said the increase in expenses was due to exploration and exploration well write-off expenses from new blocks in the Gulf of Thailand – which analysts said more than doubled in 1998 – as well as interest expenses on an outstanding Samurai bond.

"The company will delay and/or minimise its capital spending on projects that have no sale agreement. It will emphasise low-risk and high-return projects such as those already under production," PTTEP said.

Total assets at the end of 1998 were Bt44.88bn, up 9 per cent on the year.

This was lower than expected but was due to the company switching to the IAS-69 international accounting standard used by most leading exploration and production companies.

Nevertheless, the assets amounted to about Bt186 a share, far below yesterday's closing share price of Bt250.

NEWS DIGEST

THAILAND

Debt-laden TPI companies return to profit

TPI Group, the debt-laden Thai petrochemicals and cement conglomerate, said yesterday its two main units both posted net profits in 1998, but both companies were still showing operational losses and seeking to finalise debt restructuring agreements with creditors.

Thai Petrochemical Industry said it made a profit of Bt22.21bn ($588m) in 1998, compared with a net loss of Bt69.26bn the year earlier. With foreign exchange gains of Bt24.52bn, Thai Petrochemical showed an operating loss of Bt2.31bn, slightly better than analysts' expectations. TPI Polene, the cement arm, made a net profit of Bt7.73bn in 1998, against a net loss of Bt26.09bn in 1997. With foreign exchange gains of Bt9.49bn, TPI Polene showed an operating loss of Bt1.76bn, in line with expectations.

Both Thai Petrochemical and TPI Polene have moratoriums in place on about $4.5bn of debt. Thai Petrochemical is close to an agreement on restructuring its debt and is likely to resume interest payments later this year, while TPI Polene is not. **Ted Bardacke, Bangkok**

SOFTWARE SERVICES

Stan Lee links with Pentafour

Stan Lee, creator of comic-book superhero Spiderman and former chairman of Marvel Entertainment, yesterday announced a strategic tie-up with Pentafour Software, India's biggest multimedia company, in the latest sign of the growing cross-border trade in IT services between India and the US.

Pentafour will create content for Stan Lee Media ventures in television, film, internet, comic-books and video games – including plans to develop a portal site for teenagers featuring superheroes who derive their powers from the internet. It said it was too early to put a value on the forthcoming contracts. "We were looking for a partner to produce high quality animation . . . for different mediums and still be cost-effective. We don't see much of that in the industry currently," said Mr Lee.

Last month Pentafour announced a deal with New Media Venture Partners to create animated content for a new feature film by Christopher Kain, director of *Young Guns*. The contract will be worth $30m to $50m.

"Pentafour is creating strategic partnerships with pioneers in the global entertainment community to create world class products," said V. Chandrasekaran, chairman of the Indian group. Like many of its half-sisters in India's booming software services industry, Pentafour is growing rapidly. Revenues for the first nine months of the current financial year were up 92 per cent at Rs3.5bn ($148.7m). **Krishna Guha, Bombay**

HONG KONG

Bear Stearns

Bear Stearns points out that, with regard to the initial public offering for Yanzhou Coal Mining (February 12), the Stock Exchange of Hong Kong noted that it was Bear Stearns' compliance department that identified the problem and took immediate action to stop purchases of Yanzhou H shares. Bear Stearns also advised the SEHK of what had occurred with a full written and oral apology.

Psion to review its Symbian business

By Christopher Price

Psion is to launch a strategic review of its business centred on its Symbian wireless technology venture amid evidence that its traditional palm-top computer market is stagnating.

The move came as the company warned that further funding of Symbian, formed last year with Nokia, Motorola and Ericsson, the dominant makers of mobile telephone equipment, would "significantly" affect profits in the coming year. Symbian is developing an operating standard for wireless devices using Psion's computer operating system.

The increased investment costs are in addition to a downturn in revenues from Psion's Datacom software business, which the group warned of two weeks ago.

However, David Potter, chairman, said Symbian "was a watershed" in Psion's evolution. "The coming year will be one of investment and laying the foundations for future growth," he said. The review is being led by David Levin, the company's new chief executive.

Mr Potter was speaking after Psion reported a rise of just £500,000 ($800,000) in underlying annual pre-tax profits to £11.9m. An exceptional gain of £11.4m took the total to £23.3m. Sales rose 13 per cent to £159.9m.

Investments from Symbian partners led to a more than doubling in cash balances to £54.1m. Net assets rose 80 per cent to £93.8m.

The results were the first time since 1984 that revenues from Psion's consumer computer business fell below half the group total. In 1997, they accounted for 64 per cent of revenues, but fell to 48 per cent last year. There were strong gains at the group's card modem business and industrial handheld computer division.

Mr Potter said it was the success of the rival Palm Pilot organiser which had caused a 16 per cent decline in Psion palm-top sales.

However, he believed the launch of new Psion computer products in the second half of the year would see a revival in the division's fortunes.

These would be driven by developments in wireless technology and underpinned by Symbian technology. The convergence of mobile phones and organisers is already being seen in the consumer and business markets, and Psion would be positioning itself in this space, Mr Potter said.

He refused to comment on where the strategic review might take the company he founded in 1980, although he said Psion's future "lay in solutions", through partnerships, acquisitions and organic growth.

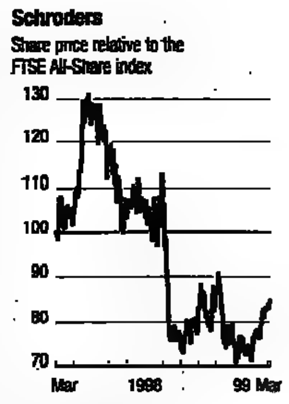
But analysts suggested that Psion's software and products would make it an ideal choice for on-line content carriers, such as America Online. They also believed the company will look to specialise its range of products around electronic mail and messaging services.

Mr Potter said the group's strong balance sheet would be used to fund investment and make acquisitions. Mr Levin said his financial background specialising in acquisitions and integrating them, would be brought to bear at Psion.

Sales of products using Symbian are expected to reach seven figures, according to Mr Potter, by 2001. Licence revenues from these could then lead to a flotation of Symbian in 2002, he added.

COMMENT

Schroders



Does Schroders need another efficiency drive? If the latest results are anything to go by, the answer is yes. But how about about one that actually works? After all, in 1996, the investment bank declared war on costs after they devoured an "unacceptable" 76 per cent of income. Three years and oneefficiency drive later, the cost to income ratio is unchanged.

Schroders says rising costs are inevitable when, as now, it is expanding the business. The headcount rose by 10 per cent last year as the bank increased its presence in Europe and Japan. Win Bischoff, chairman, has promised recruitment will slow this year. But this will only lead to higher profits if the bank's new far flung subsidiaries cover their overheads quickly.

The biggest worry for investors is that Schroders could fall into the trap that ensnared SG Warburg: allowing costs to spiral out of control through misguided expansion. To be fair it seems aware of the risks. Given its dominant position in fund management and corporate finance, Schroders needed to expand overseas to continue growing.

Nonetheless, the bank does not want to try investors' patience too much. Its sliding profitability is a worry. Stripping out the highly profitable fund management division, returns in the investment banking division are 10 per cent – roughly the same as Schroders' cost of capital. Mr Bischoff needs to demonstrate he can do better than that, and fast.

UK interest rates

The party is not quite over. But the trend in UK interest rates looks less certain after the Bank of England's monetary policy committee left them unchanged yesterday. The pause – after five consecutive cuts – was wise. For one thing, there are signs of life in the UK economy. Growth remains weak but forecasts are no longer coming down, and business confidence has stopped falling.

Nonetheless, the trend in interest rates probably remains downward. Nothing has happened that might place at risk the Bank's 2½ per cent inflation target. Indeed, average earnings are moving in the right direction, having fallen back from their 5.7 per cent peak last May to just 4.5 per cent, according to the new improved data. In the absence of inflationary pressures, this should be merely a pause in the downward march.

Schroders upbeat despite 5% drop

By Jane Martinson, Investment Correspondent

Schroders, the investment banking and asset management group, made an upbeat statement about its prospects yesterday despite announcing a 5 per cent drop in pre-tax profits.

Win Bischoff, chairman of the UK's largest independent investment bank, said: "We don't have aspirations to be an all-singing all-dancing global business but we think there is enormous potential for the future." He said growth areas included international asset management and merger advisory work in continental Europe.

Pre-tax profits fell from £245m to £232m ($371m) last year after the group made a £43m provision against bad debts in Asia. Underlying pre-tax profits rose £6m to £275m.

Mr Bischoff said stock market turmoil after the Russia crisis last year had been "frightening". "There was a terrific opportunity in the second half to lose money," he said. "With that background, we are really quite pleased about what we achieved in 1998." First half profits of £168m fell to £109m in the second.

Profits from the group's investment banking business rose 11 per cent to £128m (£115m) before provisions largely as a result of advising on several European mergers. A fifth of investment banking revenues came from transatlantic deals.

The group's three-year-old securities business also made a "meaningful contribution", said Mr Bischoff.

Higher costs and lower margins hit Schroders' asset management business, where profits fell 4.5 per cent to £147m (£154m).

The decline came despite an 11 per cent increase in funds under management to £119m at year-end. Net new business from UK, US and Japanese pension funds provided £5bn of that increase.

David Salisbury, head of the asset management business, said heavy investment in staff and systems had raised costs.

In addition, gross sales by the group's higher margin unit trust business had fallen from a record £1bn to £600m in the year. Falling markets in Asia and other emerging markets had hit revenues.

Shares rose 16p to 1280p in an illiquid market.

A game of two halves with all still to play for after a good autumn run

As soon as the spirits group gets it right, the pubs side can shift to let it down . . .

John Willman investigates Allied Domecq

Football, as the pundits like to remind us, is a game of two halves. Tony Hales, director of Aston Villa, has found that the same can apply in the business world, where he is chief executive of Allied Domecq.

Like the team he supports, the spirits and retailing group had a good run through the autumn, its share price climbing to almost 600p after unexpectedly good full-year results in October.

Villa, meanwhile, spent much of the first half of the season leading the Premiership.

Both have seen their fortunes wane in the new year, however.

Villa has lost its form, taking one point in the last five weeks and crashing 4-1 last Saturday against local rival Coventry.

And Allied's share price has slid back below 500p following a dismal trading statement in January reporting weaker sales in the pubs division and difficulties in Mexico, which provides more than 10 per cent of drinks profits.

Analysts have launched another round of downgrades to profit forecasts amid renewed reports of shareholder unrest and demands for radical action.

Mr Hales is understandably downbeat about his team's position – but he remains ebullient about the prospects for the business.

Allied is also a group of two halves, and while the retailing division has stumbled, the drinks division has – Mexico aside – outperformed most of its large competitors.

"The question a year ago was whether we were going to be flattened by the giant Diageo steamroller," he says.

"We remain number two in premium spirits and we have two of the five fastest-growing brands in Sauza tequila and Kahlua liqueur."

The latest figures from Impact International, the industry newsletter, show sales growth of 1.5 per cent last year – the second-highest among the top 10 spirits producers.

And volumes at Diageo – the world's largest spirits group formed in 1997 by the merger of Grand Metropolitan and Guinness – shrank by 0.8 per cent.

In Europe, Allied raised profit by 10 per cent last year by streamlining distribution of products such as Ballantine's Scotch whisky and Beefeater gin, and by focusing marketing efforts on the most promising brands in each country.

The same is now about to happen in the US, where Allied has merged its two distribution networks and created a single head office. "We're applying the marketing effectiveness principles we've learned in Europe," says Mr Hales.

He concedes that the pub performance is disappointing – not least because it was unexpected.

"The pubs had been recording steady growth in the first nine months of last year, with a kick-up at the World Cup where we were well-organised with our promotions. Our Firkin chain is particularly good for big-screen television events, with plenty of standing room.

"September was dull, October a bit worse and November didn't look very good. We expected an improvement at Christmas that just wasn't there."

Steps have been taken to rebuild sales, with a greater emphasis on food promotions designed to attract more women into traditionally male bastions. The real-ale Firkin pubs will no longer use the sign "Firkin Ladies" on its women's toilets.

Allied has suffered unduly, Mr Hales reckons, because it was the first to bring out a trading statement and challenge the assumption that trade had picked up at Christmas. Others are less kind. "As fast as the spirits group gets it right, the pubs drag them back," says Alex Oldroyd, drinks analyst at Morgan Stanley.

Three years ago it was the other way round, she adds. Like many analysts, she believes separating the two halves is now the way forward, giving the management of each better focus.

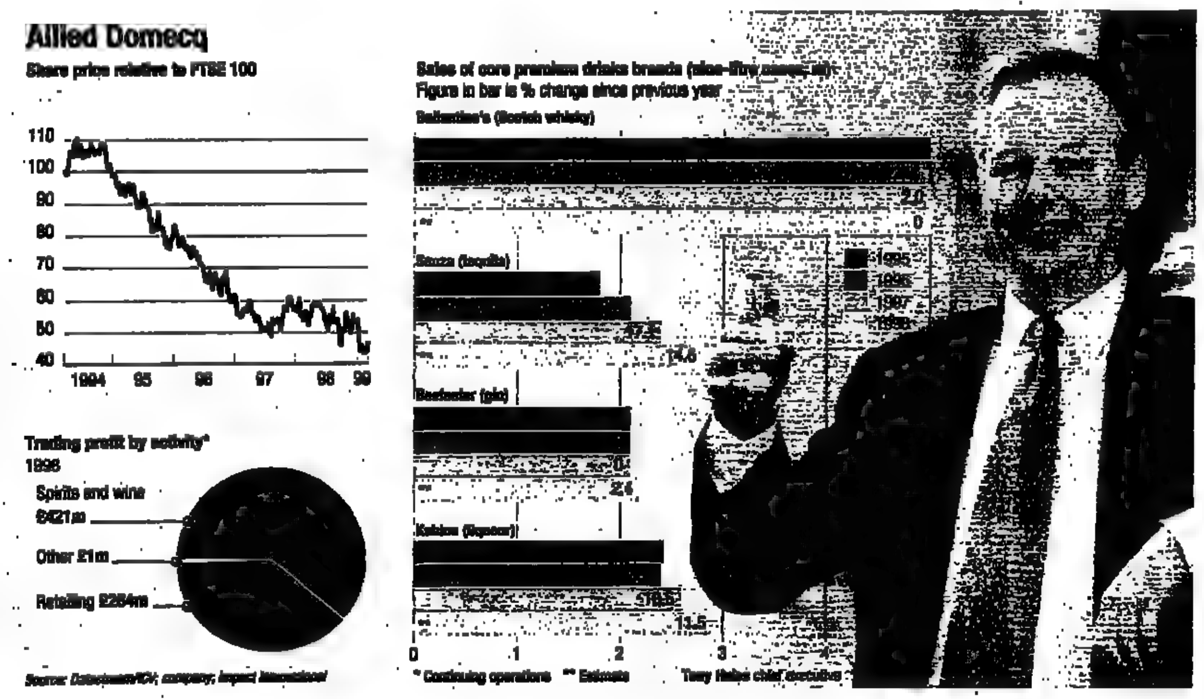
It could also make it easier for the drinks division to make a deal with another large spirits producer such as Seagram to provide the benefits of scale that Diageo hopes to enjoy.

Allied has explored options with most of the likely candidates, including Seagram, but no deal has been concluded.

Many analysts see the arrival of Philip Bowman as finance director as evidence that change is on the way. Mr Bowman, a former Bass finance director, was chief executive of Australian retailer Coles Myer where he acquired a reputation for making tough decisions. He has been taking a hands-on approach to sorting out the pubs division, leading some to suggest he is a chief executive-in-waiting for a demerged retailing division.

Mr Hales says only that demerger is a matter of pragmatism rather than principle. "Retailing and spirits have come together by accidents of history and I can see the benefits of greater management focus." He also points out that many of the obstacles to demerger – such as bonds secured on the earnings of the pub business – have been removed. "We have a lot of strategic freedom to move," he says, "but there needs to be a positive reason for demerger."

And the ambitious Mr Bowman? "He was my choice," says Mr Hales. "I told the headhunters to go after that man." But, he adds, Mr Bowman is not a man to sit on the status quo for long. "We'll see some quite interesting things in the medium term."



Source: Datastream/ICV; company; Impact International

Tony Hales chief executive

Dawson focus on cashmere

By James Buxton, Scottish Correspondent

Dawson International, the lossmaking textile group that owns the Pringle knitwear brand, said yesterday it was pinning its hopes of recovery on its core business of making and selling cashmere garments. It intends to sell its other businesses when it can get the right price.

The company said it would focus on its strengths as a cashmere producer, with production in China and the US, spinning in the UK, marketing in the US, and the Ballantyne garment brand in Scotland.

Dawson announced its new strategy yesterday as it unveiled pre-tax losses of £30.6m ($49m) for the 52 weeks ended January 2 1999, which included £19.6m exceptional charges. This was against pre-tax profits of £10.9m for the 40 weeks to January 3 1998 – for the 52 weeks to that date pro-forma profits were £10.2m. The company blamed the drop in sales to £211.2m, compared with £237.3m for 40 weeks and £274m pro forma, on "hostile" trading conditions in all its markets. No dividend will be paid (2.75p).

Parity eyes US buy

Parity, the IT consultancy and services company, is looking for an acquisition, probably in the US, to bolster its growing IT solutions business.

Announcing a 48 per cent jump in 1998 pre-tax profits, Philip Swinstead, chairman, said the company was highly cash generative. It had £10m ($16m) in the bank and a further £15m of facilities available. Profits for 1998 were ahead of forecasts at £20m (£13.5m) on turnover of £290.2m (£202.1m). The company has two core divisions: an IT solutions business and an IT staffing agency.

RESULTS

		Turnover (£m)		Pre-tax profit (£m)		EPS (p)		Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Baird (William)	Yr to Dec 31	530.5	(598.4)	25.9♠	(33.4)	15.2	(19.4)	5.4	May 7	5.4	10.5	10.3
Britannic	Yr to Dec 31	459■	(422.6■)	145.8	(1,355♥)	57.2	(666.3)	28.3	May 14	23.6	40.3	33.6
Cakebread Robey	Yr to Dec 31	18.4	(17.5)	0.74	(0.95♥)	11.4	(14.9)	2.6	May 21	2.4	4	3.75
Cookson	Yr to Dec 31 ★	1,760	(1,984)	9.4♠	(75.9♠)	2.9L	(5.7)	5.1	June 1	5.1	9.4	9.2
Dawson Intl	Yr to Jan 2 ★☆	222.9	(237.3)	30.6L♠	(10.9♠)	13.3L	(4.7)	nil	-	1.1	nil	8.75
GKN	Yr to Dec 31	3,706	(3,383)	707♥	(406)	80.2	(39.2)	10.55	Apr 1	9.5	16.5	14.75
Jacobs	Yr to Dec 31	86.9	(58.9)	8.31♥	(2.97♠)	6.51†	(2.3)	1.9	May 12	1.75	2.45	2.25
Ladbroke	Yr to Dec 31	4,681	(3,816)	277.3	(203.3♠)	17.93	(12.86†)	4.64	June 1	4.51	7.58	7.11
Lyles (S)	6 mths to Dec 31	8.96	(10.4)	0.301♥	(0.458)	3.51	(6.09)	1	June 30	1	-	3
NHP	3 mths to Dec 31	9.86	(4.35)	4.18	(1.01)	2.79	(1.7)	2.5	April 9	1.85	-	8.4
Oxford BioMedica Φ	Yr to Dec 31 #	0.05	(0.003)	3.68L	(2.93L)	3.5L†	(4.9L)	-	-	-	-	-
Parity	Yr to Dec 31	290.2	(202.1)	20	(13.5)	27.44†	(21.04)	4.4	July 1	3.4	6.8	5.2
Photobition	6 mths to Dec 31	34.5	(18)	4.62	(2.43)	4.29	(3.15)	0.65	July 7	0.6	-	1.88§
Pittards	Yr to Dec 31	74.3	(101.6)	0.005	(2.63)	0.5L	(9.4)	2.5	May 14	2.5	3.5	3.5
Psion	Yr to Dec 31 ★	158.9	(142)	23.3♥	(11.4)	24.62	(10.3)	2	May 14	1.8	2.8	2.5
Schroders	Yr to Dec 31	-	(-)	231.7♠	(244.9♠)	57.2	(58.3)	11.5	Apr 27	10.6	16.5	15.3
Serco	Yr to Dec 31 ★	687.8	(571.6)	25.6	(22)	27.4	(23.9)	5.1	Apr 16	4.4	7.4	6.4
Spring Ram	Yr to Jan 2	202.6	(232.5)	3.3♥	(0.5)	0.9	(nil)	0.1	July 1	0.1	0.1	0.1
Stordata Solutions	Yr to Nov 30	11.3	(15.7)	0.098L♠	(5.42L♠)	0.12L	(6.68L)	nil	-	nil	nil	0.2
Thistle Hotels	Yr to Dec 27	322.5	(319.7)	46.6♠	(80.6)	5	(12.4)	3	May 20	2.8	4.5	4.2
Wainhomes	6 mths to Jan 3	67	(57.1)	7.13	(6.3)	7.7	(6.9)	1.5	Apr 1	1.5	-	6§
Wates City London	Yr to Dec 31	12.6□	(10.7□)	9.16♥	(6.33)	2.73	(2.11)	0.4	May 13	nil	0.4	nil
Wilson Bowden	Yr to Dec 31	532.5	(459.6)	88.5♥	(67)	65.3	(48.7)	11	May 28	9.2	15	12.5

Investment Trusts		NAV (p)		Attributable Earnings (£m)		EPS (p)		Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
City Merchants High	Yr to Dec 31	169.2	(169.1)	4.15	(3.45)	11.56†	(12.19)	4	Mar 22	3.5‡	12.25	11‡
Fleming Mid Cap	6 mths to Dec 31	314.2	(320.2)	0.54	(0.904)	1.35	(2.26)	1.55	Apr 1	1.55	-	5.3
F&C Enterprise	Yr to Dec 31	268.5	(203.8)	4.9	(4.35)	5.21	(4.62)	4.3	Apr 23	3.9	4.3	3.9
J Fry Utilities	Yr to Dec 31 ‡‡	199.77	(90.21)	7.89	(7.94)	6.66	(11.81)	1.64	Apr 1	§§	6	§§
Jos	6 mths to Jan 31	422.16	(375.04)	0.342	(0.439)	5.29	(6.79)	3.35*	Apr 7	3.25	-	14.7

Earnings shown basic. Dividends shown net. Figures in brackets are for corresponding period. ♠After exceptional charge. ♥After exceptional credit. ■Gross premiums written. †On increased capital. ★Comparatives restated. ☆Comparatives for 40 weeks. §For 15 months. #Comparatives for 15 months. □Net rental income. ΦAim stock. ‡Included special. ‡‡Comparatives for 18 months. §§Not comparable. *Second interim; makes 6.7p to date.

Arriva acquires Danish bus group

By Susanna Voyle

Arriva, the transport group, yesterday expanded its public transport business with a £13.7m ($21.9m) deal to buy a Danish bus operator. The acquisition of Bus Danmark, the country's largest bus business by turnover with 18 per cent of the market, is the first acquisition by Bob Davies, the new chief executive.

Mr Davies joined Arriva in December – at the end of a year when the group issued two profits warnings after problems at its car leasing business. Arriva already has a presence in Denmark through its Unibus subsidiary which operates buses in Copenhagen and Jutland. The acquisition will include the assumption of £25.2m of Bus Danmark debt. Bus Danmark made an operating profit of £2.3m on turnover of £84.9m in the year to December 31.

TECHNOLOGY AVALANCHE FORECASTING

Warnings before the fall

Vanessa Houlder on the early warning systems and gadgets designed to prevent tragedy on the piste

Snow-bound: abandoned cars in Galtuer, in Austria's Paznaun valley, after an avalanche hit the resort AP

The worst avalanche conditions in the Alps for nearly 50 years have tested avalanche forecasting to its limits. A lethal combination of wind, snow, rising temperatures and rain has devastated some Alpine villages for the first time in living memory.

But despite the tragedies, the avalanche prediction systems are generally considered to have proved their worth. Indeed, criticisms have tended to focus on the speed at which the warnings were heeded.

"The prevention and protection measures have proved their usefulness," said the Swiss Federal Institute for Snow and Avalanche Research in Davos (SLF) last week. It pointed to its early warning systems and computer modelling techniques which have made it possible to anticipate severe avalanche risk and evacuate high-risk areas in advance.

But avalanche forecasting is an inexact science. Progress is held back by its complexity and its relatively poor funding, says David McClung, professor of snow and avalanche science at the University of British Columbia in Vancouver. "It moves slowly. It is a complicated problem," he says.

Much remains to be discovered. In Japan, researchers are studying avalanches using machine-made snow in the world's largest "cryospheric environment simulator". Elsewhere in Japan, researchers are studying the dynamics of simulated avalanches created using hundreds of thousands of ping-pong balls. In Switzerland, an artificial test site has been created where pressure gauges and other sensors are used to measure the forces unleashed by avalanches.

At the microscopic level, researchers are trying to get a better understanding of snow and ice. At Montana State University, researchers are using CT (computed tomography) which creates cross-sectional images from X-ray pictures, to investigate the grain structure and bonding of snow.

But most research is devoted to the prediction and prevention of avalanches in ski resorts. For holiday makers, the most conspicuous sign of this activity is the "bombing" of avalanche-prone slopes to set off controlled avalanches. But behind the scenes, there is also extensive remote computerised monitoring.

In Switzerland, a long-standing monitoring system was expanded in July 1996 when the SLF and Swiss mountain cantons launched a network of high Alpine weather and snow stations.

Snow and weather conditions are monitored by a network of about 80 human observers and about 50 remote weather stations (which will soon be increased to 70), providing the national avalanche centre in Davos with a continuous stream of information.

Currently, the remote automatic stations measure the depth and temperature of the snow, soil and surrounding air, the humidity and the wind speed.

Additional instruments are under development. In Japan, researchers have designed a "spectroradiometer" to measure the way snow reflects radiation, which indicates the size of the grains of snow. In Switzerland, an acoustic sensor, called FlowCapt has been piloted to measure the movement of grains of ice in the wind, which will help to predict unstable accumulations of snow.

Once the information has been gathered from remote stations, it is usually stored in a relational database and used to drive computer models. At SLF, the avalanche forecasting team uses visualisation tools to help them make sense of the raw data as well as the output of the computer models.

For someone caught in an avalanche the odds of survival fall to less than 50 per cent after half an hour

Computer models are becoming more sophisticated. Companies such as Gester in Switzerland have developed software which uses expert reasoning and "nearest case" analysis to analyse the probability of avalanches from information about the weather, the condition of the snow on the ground, the topography and previous avalanche records.

But many experts say computer models alone are inadequate. It is crucial to take account of the "human factor", not least because 90 per cent of all avalanches involving people are triggered by their subjects. "In my opinion, the successful methods include human judgment and experience. A lot of models don't," says Prof McClung.

Certainly, judgment and experience are vital for anyone going far off the beaten track. As well as estimating the steepness of the slope (most large slab avalanches occur on slopes of between 25 and 45 degrees) and looking out for evidence of snowdrifts or recent avalanches, people are advised to make "snowpits" (by digging down to the first thick level of refrozen old snow) to test for unstable layers of snow.

But experience has been a poor guide recently in the Alps. The combination of wind and snow may cause one part of a slope to be treacherous, even if another part appears safe. Nor are the dangers confined to years with exceptionally heavy snowfall. Even in less extreme conditions, experienced guides are sometimes taken by surprise.

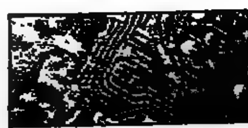
So anyone travelling across virgin snow is advised to prepare for the worst. Considerable research effort is being directed towards devising technology to improve the odds of survival for someone caught up in an avalanche. The odds fall to less than 50 per cent after half an hour, according to research in Nature, the scientific journal.

Black Diamond Equipment, a company based in Salt Lake City has recently launched the "AvaLung" which helps a person buried in the avalanche get access to the air in the snow. It extracts air over a relatively large area with the help of a filter-covered chamber, attached to a breathing tube.

Another important innovation is the newly developed digital beacon, such as the Digital Transceiving System, which is sold by Back country Access, in Boulder Colorado, for $299 (£185). Digital beacons, which use antennae and microprocessors to locate the position of a buried transmitter, are expected to have significant advantages over the analogue transceivers which have been in use since the 1970s.

The new generation of equipment still has flaws. Recent field tests by the SLF in Davos found all the new digital beacons have imperfections, although they already offer advantages to untrained users in simple situations.

Yet in spite of the shortcomings of the new equipment, the SLF says technological progress in avalanche safety is encouraging. "It appears to be quite possible that further development will bring us in the near future a big step closer to the target, which is easy to control, efficient and reliable avalanche rescue search equipment."



TECHNOLOGY WORTH WATCHING

Tempered glass resists cracking under stress

A team of researchers in the US and Italy has designed a method of strengthening glass that could pave the way for thinner and lighter panels in electronic displays.

The technique, described in the most recent edition of the journal Science, builds on the method of chemically tempering glass, in which sodium atoms near the surface are replaced by potassium atoms. The process compresses the outside layer of the glass. Compressed glass can withstand higher levels of stress.

The researchers from Penn State University, Caterpillar in Illinois and the University of Trento in Italy developed glass with an untempered surface, but with a tempered, compressed layer below. When small cracks begin to form on the outside layer of the modified glass, they are stopped by the inner layer. This creates an array of cracks on the surface that warns when the glass is approaching its breaking point.

Penn State: US, tel 001 8148659481; e-mail green@ems.psu.edu

Laser test could save chip costs

A Massachusetts Institute of Technology researcher has developed a test that could save millions of dollars by cutting the cost of testing thin films in chips.

The laser-based test can measure the thickness of the metal layers on a silicon chip to within one layer of atoms, within a second. It can also check whether each film layer is properly stuck to the layer beneath it.

The instrument uses short laser pulses to generate ultrasonic waves in the thin film. Light from a second laser is used to judge the speed of the acoustic waves, which is a measure of the thickness and adhesion of the film.

The device was developed by a start-up company formed by its inventors, before being acquired last summer by Philips, the electronics company.

The technique might eventually be used to check for eye disease or "optically switch" materials from one phase to another.

Massachusetts Institute of Technology: US, tel 6172589276; http://web.mit.edu/

Pains and needles

Passing an electric current through acupuncture-like needles can produce significant pain relief, according to a study published in the Journal of the American Medical Association.

The research carried out at the University of Texas Southwestern Medical Center at Dallas, found that the method – Percutaneous Electrical Nerve Stimulation – helped ease severe back pain. It involves inserting needles into soft tissue and muscle surrounding bone, and was found to be significantly more effective than other techniques.

University of Texas Southwestern Medical Center: US, tel 2148483404; e-mail ann.harrell @email.swmed.edu

Beam speeds sterilisation

A UK company has developed an electron beam sterilisation process that reduces the time needed to sterilise medical devices from eight hours to about eight minutes.

Rocialle, which manufactures in south Wales, believes its system – which occupies an area of about 100 sq m – is unique in Europe. It says the speed of irradiation reduces oxidative effects, which limits the tendency of the product to become discoloured and brittle, while improving its shelf life. It argues that its system is safer and quicker than traditional techniques.

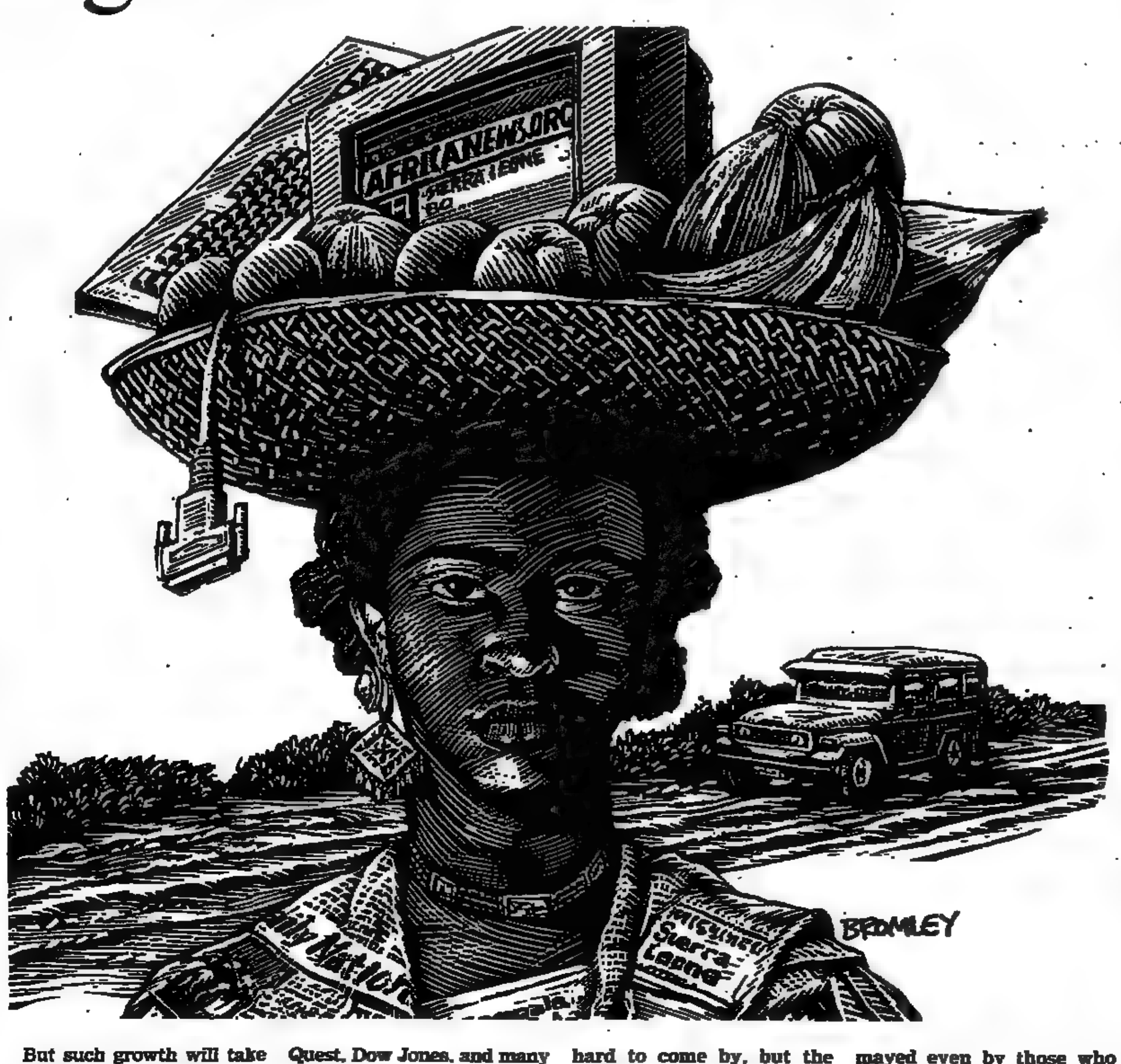
Rocialle: UK, tel (0)1223 495700; fax (0)1223 495701

Vanessa Houlder

INFORMATION TECHNOLOGY AFRICA NEWS ONLINE

Off the global hard shoulder

Electronic progress for Africans hinges upon finance, not technology, says **Martin Mulligan**



It sounds unlikely: a 24-hour electronic one-stop shop for news from all over Africa. But in a modest way Africa News Online is helping to get Africa off the global hard shoulder and on to the information superhighway.

The idea is simple. African newspapers are invited to post a selection from their pages on the Africa News website, allowing worldwide electronic access to items that were formerly available only to local newspaper readers in Ghana, Kenya and elsewhere.

The newspaper publishers receive a share of earnings calculated according to the number of their stories transmitted as daily news feeds to various organisations, as well as a share of revenue from advertising and royalties on the electronic pages.

It is a small step towards the developing world's electronic coming-of-age, but there is a long way to go. "Let's not get carried away," says James Dean, director of programmes at the information institute Panos. "The internet is exciting for those who have the capacity to get information out [of the internet] themselves. Africa is not going to become a wired society for a very long time.

"Telephone penetration is the key. Public access to the internet [in Africa] is probably a generation away – if not more."

In theory, Africa could use satellites and wireless communications to leap-frog the industrial revolution.

The obstacles are not technical but financial. "Resources are the problem," says Mr Dean. Improved telephony that will allow the growth of regional intranets (ie. connections between a country's or several countries' academic, civic and professional communities) is a more realistic option.

But such growth will take decades. In the meantime, initiatives like Africa News Online may provide a makeshift. Africa News Service – a non-profit news agency which aims to be self-supporting – was set up to provide accurate information about Africa through print and broadcast media. The news agency began operating on the web in 1995 and has grown steadily.

The news service's regularly updated pan-African bulletins have become an important source for journalists and academics.

It is used by high-profile online databases, including Financial Times Information, Lexis/Nexis, Reuters Briefings, Bloomberg, Pro Quest, Dow Jones, and many others.

Traffic more than doubled last year and is still growing. About 65,000 pages per day are delivered to viewers. All Africa News stories have links to the websites, if any, of the featured publications.

Tamela Hultman, Africa News executive editor, does not expect aggressive competition soon. "Africa News Online has drawn on a network built up during 25 years. It would be extremely difficult for anyone to come in and duplicate that history. The longevity of Africa News is significant: the web site has the traffic it has for that reason."

Reliable data about internet adoption in Africa are hard to come by, but the important fact for services like Africa News Online is that nearly all African capitals have internet access. Although in many locations the attempt is still bedevilled by poor infrastructure and by power cuts, most publications are able to transmit stories.

Nor is per capita computer ownership these days necessarily a reliable index of computer literacy among Africans: in Ghana, for example, it is estimated that five times as many people have e-mail addresses as own PCs. Cyber cafes and fried plantain sellers are found side-by-side in downtown Accra.

Ms Hultman is undismayed even by those who argue that, in a single-superpower world, Africa is a strategically unimportant continent where disease and disaster are perceived as endemic and which has only 3 per cent of world trade, with little prospect of improvement.

"In three decades of travelling to Africa, I am aware of an energy just now that has not been seen for a long time," she says.

"Except in places mired in conflict, democratic reforms and business reforms are picking up speed. The long-term results are unpredictable but there is definitely a new optimism."

www.africanews.org

MANAGEMENT EXECUTIVE SEARCH

A rate pegged to the right person

Performance-related fees can help to concentrate minds, writes **Clay Harris**

Once they get their man or woman, most executive search companies pocket their fees and walk away – with no stake, apart from their reputation, in the appointee's subsequent performance.

"Tens of millions, perhaps hundreds of millions of pounds have been wasted through poorly performing managers," says Martin Armstrong, a financial services headhunter who thinks he has a better idea.

"You should really reward search companies on how well the person has done," he argues.

Armstrong International, his London-based group, is putting that theory into practice. If clients agree, it forgoes immediate payment of part of its fee in return for a performance-related slice. The sums involved can be considerable. When Michael O'Neill was named Barclays chief executive recently, the size and terms of his remuneration package provoked more comment than whether he was the right person to replace Martin Taylor.

Search companies conventionally are paid one-third of the successful candidate's first-year remuneration – in Mr O'Neill's case, £1.7m, including a guaranteed bonus. But as executive salaries have soared, fees are often capped short of the formula figure. Regular clients can also negotiate a sliding scale that reduces the overall rate.

Although Barclays and Spencer Stuart, which handled the Mr O'Neill search, maintained their usual discretion, another UK headhunter said: "If they were paid any less than £500,000 for that, I'd say they were stuffed."

But if the wrong person gets a job, it is the shareholders who suffer.

Mr Armstrong maintains that one way to concentrate the minds of headhunters is to link an element of the fee they charge to performance.

CIBC Oppenheimer, the Canadian-owned securities house, has agreed to this method for six recruits so far. Niels Jensen, managing director for institutional equities and private client brokers, says CIBC pays Armstrong less than 50 per cent of its fees up front, with the rest as a percentage of the revenues the recruits bring in, usually over the first year.

In a business where "the hit rate is never 100 per cent, you only pay for what you get", Mr Jensen says. CIBC has done this as part of a move to using a single search company. The combination helps to "provoke a deeper interest in the business" and provides the comfort that the headhunter is "not going for a quick buck but for building a business with you".

CCF Charterhouse, the French-owned investment bank, is to consider including a performance-related element in a search being undertaken for it by Armstrong. Hawkpoint Partners, National Westminster Bank's UK corporate advisory business, is similarly interested.

Other clients have rejected the idea. According to Mr Armstrong, some want to avoid carrying over a potentially open-ended liability. Others have told him more baldly: "I don't want to be a partner with your company". Jonathan Baines, head of Baines Gwinner, another City of London search group, says of clients: "By and large, they would prefer to do it on a transactional basis".

Martin Armstrong: advocating a performance link Jason Orton

Dissatisfied clients are not without recourse under the conventional system, says one human resources executive. She notes that clients have refused to pay their full bills, and have denied the headhunters further business, when candidates they had recommended proved inappropriate.

Clients adopting performance-linking face two difficult issues: how to measure it and for what period. For traders, additional revenues are transparent enough, but more qualitative methods are needed for other posts.

Armstrong is looking for a mergers and acquisitions professional for a continental European country for an investment banking client. As part of the fee, it will receive 10 per cent of the increase in revenues achieved in that country during one year.

In another case, Armstrong will be paid 10 per cent of the share of carried interest – the return over an agreed benchmark – due to the partner it found for a private equity company. That agreement lasts for three years but in most cases, one or two years is more appropriate.

Even Mr Armstrong sees limits to performance-linking. It is "more suitable for small boutique revenue-generating businesses rather than risk-taking businesses." The performance-linked approach is unlikely to transform the wider world of headhunting, but it may encourage companies to pay far more attention to whether search companies give them value for money.

هكذا من الاصل

EURO PRICES

EQUITIES

Interest rate uncertainty prompts caution

EUROPEAN OVERVIEW

By Florian Gimbel

Uncertainty over the direction of US and euro-zone interest rates weighed on European shares yesterday, with German issues being particularly downbeat.

Most equity investors chose to stay on the sidelines in anticipation of today's European Central Bank meeting and Friday's release of US non-farm payrolls.

The latter figures have traditionally had a strong bearing on the Federal Reserve's monetary policy. For February, analysts at HSBC expect payrolls to have grown by 280 000, against January's rise of 245,000, because of high confidence and low jobless claims.

Today's ECB meeting was another factor behind yesterday's lacklustre trading, as markets expected the bank to leave euro-zone interest rates on hold – in defiance of political pressure.

Cyclical stocks, such as carmakers and chemicals, were hardest hit yesterday. "Poor earnings prospects for 1999 and stiff pricing pressures are to blame," said Gary Dougan at J.P. Morgan.

"Europe's car industry is suffering from overcapacity, leading to discounts of up to 20 per cent. Thus we expect earnings in the auto sector to decline by 10 to 15 per cent in 1999," he added.

PSA Peugeot-Citroën was down 4.45 per cent as 1889 earnings came in below expectations.

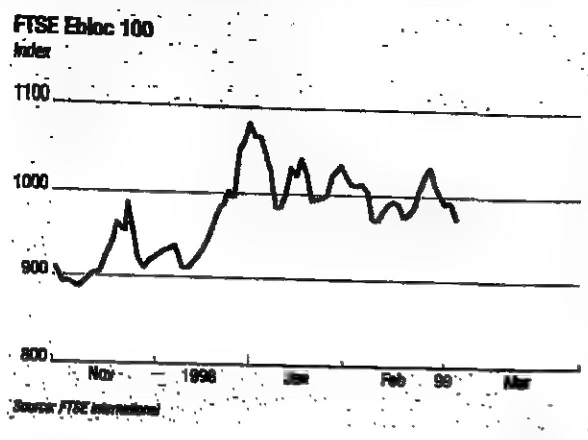
The retail sector, notably Carrefour and Pinault-Printemps, performed well, unlike some of the food and drink producers such as Heineken.

On a general note, the euro-zone stocks delivered negative returns of minus 1.5 per cent in February, in spite of the weakening euro, according to a report by BT Alex Brown. "Weak earnings forecasts for 1999 and rising US bond yields weighed on European stocks," said one analyst.

The FTSE Eurotop 300 index fell 7.96 to 1,201.29, while the FTSE Eurotop 100 declined 17.86 to 2,758.09. The FTSE Ebloc index of leading stocks in the euro-zone settled 14.74 lower at 976.95.

Alcatel was up a stunning 11.3 per cent, with its acquisition of US company Xylan sparking interest among US fund managers. Investors have largely avoided the stock since it plunged on an unexpected profit warning last September.

FTSE Ebloc 100



Source: FTSE International

■ THREE MONTH EURIBOR FUTURES (LIFFE) €1m 100-rate

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	96.905	96.895	+0.005	[illegible]	96.880	31772	157080
Jun	96.955	96.940	-	96.970	96.930	[illegible]	141827
Sep	96.960	96.940	-	96.980	96.935	40080	[illegible]
Dec	96.670	96.665	-0.010	96.700	96.655	14649	[illegible]

■ THREE MONTH EURO LIBOR FUTURES (LIFFE) €1m 100-rate

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	96.905	96.895	-0.005	96.905	96.895	825	118609
Jun	96.955	96.940	-	[illegible]	96.955	71	[illegible]
Sep	96.960	96.940	-	[illegible]	96.955	85	93719
Dec	[illegible]	96.665	+0.010	96.695	96.680	58	86787

■ THREE MONTH EURO LIBOR OPTIONS (LIFFE) €1m 100-rate

Strike Price	CALLS Mar	Jun	Sep	Dec	PUTS Mar	Jun	Sep	Dec
96875								
97000	0.035	0.120	0.090	0.150	[illegible]	0.180	0.425	0.365
97125								
97250	0.016	0.040	0.050	0.080	0.325	[illegible]	0.635	0.545

Est. vol. total. Calls 0 Puts 0. Previous day's open int., Calls 278278 Puts 160286

■ FTSE EUROTOP 100 INDEX FUTURES (LIFFE) €20 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	2787.0	2757.0	-26.0	[illegible]	2752.0	186	7396
Jun		2757.0	-26.0			0	12

■ EURO STYLE FTSE EUROTOP 100 INDEX OPTION (AEX) €10 per index point

	2600 C	2600 P	2650 C	2650 P	2700 C	2700 P	2750 C	2750 P	2800 C	2800 P	2850 C	2850 P	2900 C	2900 P	2950 C	2950 P
Mar	272	23	171	31	132	43	97	58	67	79	44	107	28	141	17	179
Apr	284	60	216	73	181	88	149	106	118	127	[illegible]	150	72	176	84	212

Est vol total 0 ; Prev day's open interest total: 8,782 . Premiums shown are based on settlement prices.

OTHER INDICES

	Mar 3	Mar 2	Mar 1	1998/99 High	1998/99 Low	Since compilation High	Since compilation Low
DJ Stoxx 50	3396.27	3430.42	3418.80	3670.82	2433.07	3670.82	2433.07
DJ Euro Stx 50	3393.96	3461.18	3441.74	3695.36	2419.23	3695.36	2419.23
MSCI Europe	(u)	1182.34	1188.91	1315.85	906.58	1318.85	510.79

Source: Financial Times Information. *Subject to revision next day. (u) unavailable.

For real-time FTSE Eurotop 300 index quotes call FT Cityline on 0906 843 5920. Calls are charged at 60p per minute at all times.

FTSE Actuaries Share Indices — European series

Produced in conjunction with the Faculty and Institute of Actuaries

Mar 03 National & Regional Markets	Euro Index	Day's %	change points	Yield gross %	xd adj ytd	Total rtn (Euro) €
FTSE Eurotop 300	1201.29	-0.66	-7.96	2.24	2.39	1239.40
FTSE Eurotop 100	2758.09	-0.64	-17.86	2.21	7.86	991.40
FTSE Ebloc 100	976.95	-1.49	-14.74	2.07	0.74	992.44
FTSE EuroMid	1190.05	-0.07	-0.79	2.80	1.58	1234.79
FTSE EuroMid Ebloc	1174.75	-0.58	-6.88	2.35	1.85	1201.25
FTSE EuroMid Ex UK	1218.82	-0.21	-2.50	2.20	1.14	1242.33
FTSE Eurotop 300 Regions						
Eurobloc	1222.08	-1.36	-16.91	2.03	1.15	1249.37
UK	1172.19	-0.03	-0.36	2.83	5.08	1238.15
Europe Ex-Eurobloc	1180.52	+0.07	+0.82	2.45	3.84	1236.89
Europe Ex-UK	1218.81	-0.99	-12.22	2.04	0.86	1242.50
FTSE Eurotop Industry Sectors						
RESOURCES	883.34	+0.50	+4.24	3.40	2.81	895.31
Mining	862.14	-0.31	-2.65	4.17	0.00	880.34
Oil & Gas	820.86	+0.54	+4.37	3.37	2.82	843.63
BASIC INDUSTRIES	1044.29	-0.84	-8.81	2.85	1.98	1068.49
Chemicals	791.01	-1.33	-10.69	2.85	1.83	806.78
Construction & Bld Matls	[illegible]	-0.23	-2.30	2.32	1.13	1006.47
Forestry & Paper	882.52	+2.12	+18.29	4.37	0.00	922.87
GENERAL INDUSTRIALS	1082.58	-0.82	-8.96	2.33	3.12	1109.73
Aerospace & Defence	754.14	+0.05	+0.35	2.21	0.00	784.35
Diversified Industrials	932.21	-1.79	-17.03	2.18	0.00	953.53
Electronic & Elect Equip	971.36	-0.12	-1.20	1.88	5.15	981.71
Engineering & Machinery	1000.54	-0.47	-4.74	2.99	4.16	1018.57
CYCLICAL CONS GOODS	1204.95	-2.31	-28.51	2.37	0.00	1239.10
Automobiles	888.22	-2.55	-23.25	2.38	0.00	898.45
Household Goods & Texts	1223.37	-1.03	-12.79	2.32	0.00	[illegible]
NON-CYC CONS GOODS	1212.51	-0.39	-4.73	1.52	2.26	1248.18
Beverages	966.28	+1.26	+12.00	2.86	0.00	987.12
Food Producers & Process	917.17	-0.04	-0.35	1.74	0.41	928.37
Health	882.17	+0.18	+1.56	1.32	0.00	885.36
Packaging	754.82	-0.97	-7.41	1.20	0.00	755.86
Personal Care & Hse Prods	1056.66	-1.82	-19.53	0.92	0.00	1065.66
Pharmaceuticals	1104.81	-0.53	-5.84	1.20	3.25	1114.04
Tobacco	1403.98	-1.00	-14.17	3.53	1.42	1437.20
CYCLICAL SERVICES	1324.86	-0.70	-0.31	2.34	1.32	[illegible]
Distributors	703.20	-1.25	-8.93	4.20	0.00	711.10
General Retailers	1075.35	-0.78	-8.41	2.88	1.27	1086.86
Leisure Entertain & Hotels	988.84	-0.20	-1.90	2.14	8.02	989.00
Media & Photography	1240.08	-1.35	-17.03	1.86	1.20	1254.55
Rests, Pubs & Breweries	882.98	+0.43	+3.80	3.31	3.71	892.16
Support Services	1093.25	+0.24	+2.57	1.38	0.00	1104.85
Transport	959.07	-1.06	-10.20	2.84	1.81	979.40
NON-CYCLICAL SERVS	1389.22	-1.65	-22.85	1.39	0.48	1409.88
Food & Drug Retailers	1010.39	-1.30	-13.28	2.09	0.51	1026.32
Telecommunications Servs	1368.31	-1.72	-23.90	1.27	0.43	1389.16
UTILITIES	1426.01	-0.80	-11.40	3.16	4.25	1519.67
Electricity	1086.55	-0.90	-9.87	3.29	3.42	1126.78
Gas Distribution	1172.83	-1.23	-14.63	1.86	1.00	1292.16
Water	938.93	+0.87	+8.05	5.38	5.94	987.34
FINANCIALS	1254.58	-0.30	-4.86	2.68	3.45	[illegible]
Banks	884.91	-0.47	-4.16	3.44	4.16	907.99
Insurance	939.53	-0.18	-1.74	1.45	0.00	950.86
Life Assurance	1128.02	-0.56	-6.35	1.75	0.80	1142.67
Investment Companies	985.45	-0.05	-0.51	1.81	0.00	1008.09
Real Estate	729.60	-0.26	-1.95	3.36	1.67	760.92
Speciality & Other Fin	873.44	-0.34	-2.98	2.57	0.00	894.13
INFORMATION TECH	925.41	-0.45	-4.20	0.67	0.04	927.86
Information Tech Hardware	986.36	+0.69	+6.80	0.73	0.00	988.71
Software & Computer Serv	765.07	-3.60	-30.12	0.48	0.15	787.98

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CURRENCIES & MONEY

EURO SPOT FORWARD AGAINST THE EURO

Mar 3		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	Day's mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA
Europe												
Czech Rep.	(Koruna)	37.5737	-0.0054	[illegible] - 908	37.7100	37.4850	37.7343	-5.1	38.0512	-5.1	39.3836	-4.8
Denmark	(DKr)	7.4383	+0.0028	[illegible] - 401	7.4405	7.4275	7.4379	-0.3	7.4428	-0.3	7.4646	[illegible]
Greece	(Dr)	321.657	-0.1530	436 - 878	322.100	321.235	323.4322	-6.6	326.9943	-6.6	340.3292	-5.8
Hungary	(Forint)	254.509	+2.1800	341 - 676	254.790	252.310	257.2369	-12.9	262.4347	-12.5	283.9388	-11.6
Norway	(NKr)	8.6489	-0.0041	436 - 541	8.6650	8.6330	8.6809	-4.4	8.7348	-4.0	8.8870	-2.8
Poland	(Zloty)	4.3392	+0.0064	365 - 418	4.4330	4.3250	-	-	-	-	-	-
Romania	(Leu)	14392.00	+158.9300	[illegible]	14430.00	14355.00	-	-	-	-	-	-
Russia	(Rouble)	25.4214	+0.1187	[illegible]	25.4450	25.2428	-	-	-	-	-	-
Slovakia	(Koruna)	43.5983	-0.1110	301 - 625	44.0103	42.3345	-	-	-	-	-	-
Sweden	(SKr)	8.9917	-0.0055	841 - 992	9.0165	8.9835	8.9923	-0.1	8.9951	-0.2	9.0089	-0.2
Switzerland	(SFr)	1.5888	-0.0042	879 - 897	1.6041	1.5825	1.5862	2.0	1.5816	1.8	1.5637	1.6
UK	(£)	0.6749	-0.0014	746 - 752	0.6778	0.6719	0.6763	[illegible]	0.6788	-2.3	0.6898	[illegible]
Americas												
Argentina	(Peso)	1.0916	-0.0010	913 - 919	1.0944	1.0875	-	-	-	-	-	-
Brazil	(R$)	2.3855	+0.0380	795 - 915	2.3920	2.3168	-	-	-	-	-	-
Canada	(C$)	1.6680	+0.0059	[illegible]	1.6690	1.6580	1.6707	-1.9	1.6763	-2.0	1.7040	-2.2
Mexico	(New Peso)	10.8837	+0.0021	768 - 905	10.9154	10.8357	11.1383	-27.7	11.5615	-24.9	13.5987	-24.9
USA	($)	1.0918	-0.0010	[illegible]	1.0946	1.0877	1.0934	-1.8	1.0970	-1.9	1.1157	-2.2
Pacific/Middle East/Africa												
Australia	(A$)	1.7481	-0.0118	470 - 492	1.7625	1.7428	1.7506	-1.7	1.7556	-1.7	1.7806	-1.9
Hong Kong	(HK$)	8.4567	-0.0088	[illegible]	8.4750	8.4395	8.4782	-2.3	8.5186	[illegible]	8.8276	-4.3
India	(Rs)	46.4082	[illegible]	[illegible]	46.5862	46.2100	46.7052	-7.7	47.4084	[illegible]	50.9476	[illegible]
Indonesia	(Rupiah)	9678.37	-8.8600	886 - 788	9880.40	9666.80	9941.89	[illegible]	10520.44	-34.8	12958.34	-33.9
Israel	(Shk)	4.4156	-0.0103	091 - 221	4.4341	4.4013	-	-	-	-	-	-
Japan	(Y)	132.457	[illegible]	[illegible]	132.700	131.400	[illegible]	3.1	131.4340	3.1	128.4783	3.0
Malaysia	(M$)	4.1487	-0.0038	487 - 487	[illegible]	4.1335	-	-	-	-	-	-
New Zealand	(NZ$)	2.0615	-0.0072	[illegible]	2.0718	2.0542	2.0637	-1.3	2.0685	-1.4	2.0953	-1.6
Philippines	(Peso)	42.6875	+0.0702	139 - 610	42.9631	42.3659	43.0565	-10.4	43.7119	-9.6	46.9121	[illegible]
Saudi Arabia	(SR)	4.0947	-0.0036	[illegible]	[illegible]	4.0794	4.1113	-4.9	4.1405	-4.5	4.2791	-4.5
Singapore	(S$)	1.8942	-0.0061	932 - 952	1.8960	1.8910	1.8931	0.7	1.8902	0.8	1.8927	0.1
South Africa	(R)	6.8125	-0.0117	[illegible]	[illegible]	6.7698	6.8847	-12.7	7.0144	-11.9	7.5446	-10.7
South Korea	(Won)	1342.09	[illegible]	[illegible] - 300	1346.91	1340.20	-	-	-	-	-	-
Taiwan	(T$)	36.1370	-0.0057	741 - 998	36.2540	35.9810	36.5583	-14.0	36.8928	[illegible]	38.0827	[illegible]
Thailand	(Bt)	41.0553	+0.0389	[illegible] - 029	41.1774	40.9268	41.2819	[illegible]	41.6594	[illegible]	43.4602	-5.9
UAE	(Dirham)	4.0100	-0.0038	[illegible] - 110	4.0250	4.00800	4.0172	-2.2	4.0327	[illegible]	[illegible]	-2.5

Euro Locking Rates: Austrian Schilling 13.7603, Belgium/Luxembourg Franc 40.3399, Finnish Markka 5.94573, French Franc 6.55957, German Mark 1.95583, Irish Punt 0.787564, Italian Lira 1936.27, Netherlands Guilder 2.20371, Portuguese Escudo 200.482, Spanish Peseta 166.386. Bid/offer spreads in the Euro Spot table show only the last three decimal places. Bid, offer, mid spot rates and forward rates are derived from THE WM/REUTERS CLOSING SPOT and FORWARD RATE services. Some values are rounded by the F.T.

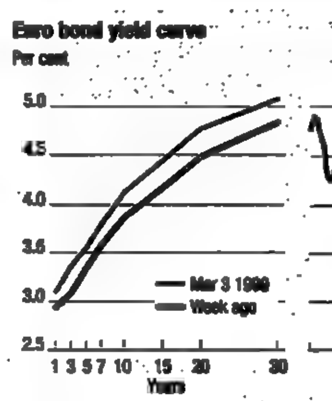
BONDS

INTEREST RATE SWAPS

Mar 03	Euro-€ Bid	Euro-€ Ask	£ Stlg Bid	£ Stlg Ask	SwFr Bid	SwFr Ask	US $ Bid	US $ Ask	Yen Bid	Yen Ask
1 year	3.20	3.23	5.36	5.39	1.63	1.67	5.41	5.44	0.23	0.26
2 year	3.30	3.34	5.47	5.50	1.83	1.91	5.64	5.67	0.32	0.35
3 year	3.48	3.52	5.49	5.53	2.06	2.14	5.75	5.78	[illegible]	0.58
4 year	3.66	3.70	5.49	5.53	2.25	2.33	5.83	5.86	0.82	0.85
5 year	3.83	3.87	5.46	5.50	2.43	2.51	5.88	5.91	1.10	1.13
6 year	3.99	4.03	5.44	5.48	2.60	2.68	5.94	5.97	1.36	1.39
7 year	4.14	4.18	5.43	5.47	2.77	2.85	5.98	6.01	1.58	1.61
8 year	4.28	4.32	5.43	5.47	2.93	3.01	6.03	6.06	1.75	1.78
9 year	4.39	4.43	5.43	5.47	3.08	3.16	6.06	6.09	1.90	1.93
10 year	4.47	4.51	5.44	5.48	3.22	3.30	6.10	6.13	2.03	2.06
12 year	4.62	4.66	5.44	5.49	3.44	3.54	6.17	6.20	2.24	2.28
15 year	4.82	4.86	5.46	5.51	3.69	3.79	6.26	6.29	2.24	2.28
20 year	5.03	5.07	5.47	5.52	3.95	4.05	6.32	6.35	2.67	2.72
25 year	5.15	5.19	5.46	5.52	4.05	4.15	6.32	6.35	2.76	2.81
30 year	5.21	5.25	5.45	5.52	4.14	4.24	6.25	6.29	2.79	2.86

Bid and ask rates as at close of London business. US $ is quoted annual money actual/360 basis against 3 months Libor, £ and Yen quoted on a semi-annual actual/365 basis against 6 months Libor, Euro/Swiss Franc quoted on annual bond 30/360 basis against 6 month Euribor/Libor with the exception of the 1 year rate which is quoted against 3 month Euribor/Libor. Source: Intercapital Brokers Ltd.

Euro bond yield curve



Euro against the dollar

Source: Interactive Data/FT Information

EURO-ZONE BONDS

Mar 03	Red date	Coupon	S & P Rating	Bid price	Bid yield	Day's chge yld	Mth's chge yld	Sprd v Govts
■ SOVEREIGNS								
UK	01/01	4.250	AAA	101.589	3.37	+0.03	+0.30	+0.13
Denmark	01/02	4.750	AA+	103.279	3.51	+0.03	+0.36	+0.15
Sweden	02/01	5.000	AA+	102.935	3.39	+0.02	+0.30	+0.15
Greece	11/06	8.750	BBB	113.426	4.63	+0.06	+0.38	+0.63
■ SUPRANATIONALS								
ADB	10/07	5.500	AAA	106.827	4.65	+0.05	+0.40	+0.63
EIB	04/08	5.000	AAA	105.214	4.29	+0.05	+0.41	+0.28
Eurofima	12/00	5.625	AAA	107.501	4.72	+0.06	+0.43	+0.58
World Bank	04/05	7.125	AAA	116.830	3.99	+0.05	+0.33	+0.31
■ UTILITIES								
EDF	10/03	3.750	n/a	100.248	3.69	+0.04	+0.35	+0.23
TEPCO	02/03	4.750	AA	102.574	4.03	+0.04	+0.36	+0.57
Quebec Hydro	03/08	5.375	A+	103.857	4.84	+0.05	+0.41	+0.81
Norsk Hydro	10/99	7.250	A	101.982	3.62	+0.04	+0.09	+0.59
■ FINANCIALS								
Bad Wurtt	02/10	5.375	AAA	105.807	4.66	+0.07	+0.47	+0.48
OKB	09/07	5.730	AAA	108.537	4.38	+0.06	+0.41	+0.46
Credit Local	04/08	5.250	AA+	104.607	4.62	+0.05	+0.41	+0.59
Abbey Natl	01/09	5.000	AA–	100.368	4.95	+0.06	+0.44	+0.81
■ INDUSTRIALS								
Unilever	10/01	5.125	AAA	103.620	3.63	+0.03	+0.35	+0.39
McDonalds	03/08	5.125	AA	103.980	4.56	+0.05	+0.78	+0.55
Philip Morris	06/08	5.625	A	103.407	5.15	+0.06	+0.46	+1.12
BAT Intl Fin	07/08	5.375	A–	[illegible]	5.06	+0.06	+0.24	+1.26
■ PFANDBRIEFE								
Rhein Hypo	12/01	5.500	n/a	105.273	3.44	-0.04	+0.25	+0.20
Eurohypo AG	01/04	5.000	n/a	105.435	3.75	-0.03	+0.32	+0.19
Bayer Vereins	01/06	6.000	n/a	111.332	4.07	-0.06	+0.40	+0.27
Depfa	07/08	4.750	n/a	102.944	4.36	-0.04	+0.38	+0.33
■ HIGH YIELD								
Boberit	04/07	10.125	B+	107.473	8.77	+0.07	+0.71	+4.68
Colt Telecom	11/07	8.875	n/a	105.393	7.97	+0.08	-0.58	+4.05
Impress Metal	05/07	9.875	B	100.499	9.78	+0.06	+0.88	+5.88
Remy Cointreau	07/05	10.000	B+	96.085	10.88	+0.08	-0.70	+7.18

Standard & Poor's ratings. Source: Interactive Data/FT Information.

FTSE EUROTOP 300

Name	Price (Euro)	Chge + or -	Mkt cap Euro(bn)	Vol (m)	Yld
AEROSPACE & DEFENCE					
Brit Aero	5.83	-	6.1	6.5	1.5
Smiths Ind	14.28	+1	4.5	1.2	2.5
Thomson CSF	28.41	-.6	4.4	0.2	2.1
AUTOMOBILES					
BMW	[illegible]	-24.0	15.0	-	1.4
DaimlerChrys	79.85	-0.8	78.5	0.3	2.8
Fiat	2.80	-	14.3	12.3	2.4
GKN	13.44	+.9	9.8	2.7	1.8
Lucasvarity	4.20	-	5.9	1.9	2.1
Michelin B	37	-.7	5.1	0.4	1.8
Peugeot	118.80	-0.8	[illegible]	[illegible]	4.4
Pirelli Spa	2.88	-.1	4.8	2.2	2.4
Renault	36.50	-.3	8.7	2.0	2.1
Valeo	72.70	-0.8	6.0	0.1	1.4
Volkswagen	65.30	-.7	20.8	0.2	1.4
Volvo A	22.93	+.1	3.2	0.1	2.9
Volvo B	23.40	+.1	7.1	1.5	2.8
BANKS					
ABN Amro	17.30	-.3	26.8	8.2	2.7
Abbey Natl	17.90	+.3	25.5	2.6	3.1
Alliance & L	11.43	-.5	6.7	2.1	3.4
Allied Irish	18.85	+.2	16.4	-	1.8
Almanij	68.15	-1.1	16.4	-	0.9
Argentaria	21.80	-.2	10.6	4.6	1.7
Banca Comm	6.40	-	8.7	6.7	2.8
Bnc Fideuram	6.08	-.1	4.6	1.6	1.1
Banca Intesa	4.80	-.1	12.4	2.5	0.9
Banca di Roma	1.38	-	7.2	37.8	-
Banco Bilbao	12.80	-.3	26.4	4.7	1.2
Banco [illegible]	10.54	-	11.7	3.6	1.1
Banco Comerc	27.10	+.3	8.4	-	1.7
Banco Popula	58.25	-.2	6.6	0.2	2.4
Banco de San	17.69	-	28.8	2.3	1.2
Bank Austria	48.85	-.2	4.1	0.6	2.2
Bank of Irel	18.65	+.2	9.4	-	1.6
Bank Scot	12.89	-.2	19.9	2.8	[illegible]
BNP	75.80	+1.3	16.0	0.7	1.4
Barclays	25.20	+.4	38.1	2.8	3.5
Bay Hypo Ver	48	-0.8	18.6	0.1	1.7
Commerzbank	24.30	-.3	11.8	0.2	3.3
CCF	81.15	+2.8	5.9	0.4	1.3
CS Group (Re	140.67	+.6	37.5	0.4	2.2
Danske Bank	100.61	+.2	6.3	0.2	2.4
Deutsche Ban	48.85	-.8	26.3	0.2	2.4
Dresdner Ban	36.65	-.8	18.7	0.1	2.6
ForeningsSpa	19.97	-.1	7.6	1.0	3.8
HSBC (75p)	28.43	-1	23.5	2.3	3.5
HSBC (HK$10)	28.03	-.2	47.5	3.6	3.5
Halifax	10.69	-.1	25.6	6.4	3.1
KBC Holdings	60.60	+.4	20.3	0.1	1.7
LloydsTSB	13.15	-.2	71.5	7.8	2.7
Merita	5.19	-.1	4.2	0.7	3.4
National Bnk	68.55	-.3	8.0	0.2	1.8
Nat West	16.23	+.5	32.8	4.8	3.8
Nordbanken H	5.20	-.1	6.7	2.4	3.5
Rolo Banca	22	-.1	8.6	0.4	2.6
Ryl Bk Scot	17.77	+.2	15.7	1.2	2.6
SanPaolo-IMI	15.10	-.7	21.2	2.2	-
S-E-Banken A	10.02	-	5.8	0.8	3.8
Soc Generale	136.10	+.8	13.5	0.5	2.5
Stand Chrtd	12.09	+.2	12.1	2.7	2.8
Sv Handelsb	31.27	+.7	7.5	0.9	2.3
UBS AG (Reg)	281.85	+3.8	60.6	0.5	2.2
Uni Credito	4.38	-.2	21.2	13.8	1.4
Woolwich	5.02	-	8.8	2.7	3.2
BEVERAGES					
Allied-Dom	7.21	+.2	7.5	5.8	5.2
Carlsberg B	41.17	-.6	1.2	-	1.5
Diageo	10.66	+.4	38.2	14.2	2.7
Heineken	44.65	-0.5	14.1	2.5	0.7
CHEMICALS					
Air Liquide	132.80	[illegible]	11.8	0.1	1.6
Akzo	31.80	-.8	9.0	1.6	4.6
BASF	31	-.6	19.4	0.4	3.3
BOC	12.70	+.4	6.2	1.1	4.1
Bayer	33.94	-.6	23.3	0.4	3.1
Ciba Spec Ch	64.83	-.6	4.3	0.2	-
Clariant (Re	428.89	+.4	6.2	-	1.0
Degussa-Huel	31.23	[illegible]	4.9	0.1	-
Hoechst	36.65	-.7	22.7	0.2	2.6
ICI	7.86	-	5.8	3.3	6.2
Rhone Poulen	41.50	-.4	15.4	1.8	1.5
Solvay	61.40	-.3	8.2	-	2.4
UCB	45.63	-.3	6.6	0.1	0.5
CONSTRUCTION & BUILDING					
Bouygues	232.30	-0.7	8.7	-	1.1
CRH	16.58	+.1	6.4	-	1.6
Hanson	7.87	+.1	5.1	2.4	2.6
Holderbank B	930.85	-0.5	4.8	-	1.4
Lafarge	79	-1.2	8.1	0.3	2.2
Saint Gobain	143	-	12.8	0.2	2.0
DISTRIBUTORS					
GEHE	58.10	-1.2	3.7	-	1.3
Rexel	75.70	-.1	3.6	-	2.2
DIVERSIFIED INDUSTRIALS					
Investor A	36.61	+.5	2.8	-	3.3
Investor B	37.30	+.2	4.2	0.2	3.3
Montedison	0.98	-	4.3	0.2	2.4
RWE	36.00	-0.2	20.5	0.2	2.3
Suez-Lyon de	170.60	-0.7	28.4	0.3	1.3
Viag	450	-0.8	12.5	-	1.8
Veba	46.60	[illegible]	23.1	0.2	2.4
Vivendi	221.20	-0.1	28.0	0.4	1.0
ELECTRICITY					
Br Energy	8.14	-.3	5.8	2.9	3.0
Edison	8.27	-.2	8.2	1.6	1.4
Electrabel	286	-4.8	15.8	-	2.8
Elect de Por	19.16	+.3	8.3	-	2.4
Endesa	22.65	-.6	22.8	3.1	1.6
Iberdrola	13.26	-.2	12.0	6.6	2.7
Natl Grid	6.57	-	9.7	6.4	3.5
Nat Power	7.45	-	9.2	4.0	8.4
PowerGen	11.05	+.4	7.6	10.4	4.8
Scot Hydro	8.44	-.1	7.4	2.2	4.7
Scot Power	8.08	+.1	10.5	2.9	4.4
Tractebel	140.70	-4.1	12.8	-	1.3
Union Fenosa	15.52	+.3	4.6	0.6	1.7
ELECTRONIC & ELECTRICAL EQUIPT					
ABB A	18.41	+.1	9.6	1.0	2.3
ABB (Br)	1,103.00	+1.8	10.2	-	2.2
Alstom	23	-.8	4.9	0.2	-
GEC	8.26	+.4	22.3	12.6	2.5
[illegible]	21.80	-.5	3.6	0.6	2.1
[illegible]	46.50	-	4.2	-	2.0
Legrand	182	-0.5	3.9	-	0.9
Philips	63.25	+.6	20.8	2.3	1.6
Schneider	48.11	-.7	7.4	1.3	2.4
Siemens	58.36	-0.1	31.2	0.3	1.4
ENGINEERING & MACHINERY					
Atlas Copco A	24.21	+1	3.8	0.3	2.0
Atlas Copco B	23.07	-	1.5	0.1	2.1
Sidel	392	-	16.0	5.2	1.8
Linde	482	-4.0	[illegible]	-	2.3
MAN	23.80	+.1	3.5	-	3.5
Mannesmann	118.26	-0.1	45.2	0.1	0.6
Preussag	449	+0.6	6.6	-	1.7
Sandvik A	18.38	+.4	4.5	0.9	4.2
Scania A	23.50	+.2	2.4	0.3	3.1
Scania B	23.50	[illegible]	2.4	0.3	3.0
Thyssen	182.25	-.2	8.0	-	3.0
Tomkins	3.27	-	3.8	4.3	6.5
FOOD & DRUG RETAILERS					
Asda	2.34	-	6.8	12.8	3.0
Ahold	33.55	-.6	21.1	4.9	1.1
Carrefour	687	+2.5	34.7	[illegible]	0.8
Casino	83.40	-1.5	8.2	0.3	1.5
Delhaize Fre	87.95	-0.3	4.6	-	0.9
Promodes	581	-8.0	10.5	-	0.9
Safeway	3.79	-.1	4.2	3.7	0.9
Sainsbury	5.27	-.2	10.0	8.2	3.5
Tesco	2.42	-.1	16.2	28.5	3.5
FOOD PRODUCERS & PROCESSORS					
A B Foods	6.83	-.1	5.9	1.0	2.5
Cadbury Schw	14.07	+.3	14.3	8.7	2.0
Danone	222	-0.8	15.4	0.2	1.3
Eridania B-S	139	-0.9	3.2	-	4.5
Nestle R	1,765.62	+2.1	67.2	-	1.3
Numico	40.40	-.7	5.2	0.7	0.8
Unilever NV	63.70	-.1	42.1	2.1	1.7
Unilever PLC	8.82	-	28.8	5.1	1.8
FORESTRY & PAPER					
SCA B	19.53	+.2	2.5	0.8	3.9
Stora Enso A	8	+.6	1.9	0.1	4.4
Stora Enso R	8.28	+.3	4.2	0.8	4.2
UPM-Kymmene	28.00	+.2	6.8	0.3	4.5
GAS DISTRIBUTION					
BG	5.12	-.1	20.5	13.3	2.8
Centrica	1.74	-	7.7	8.2	-
Gas Natural	88.30	+.3	19.2	0.1	0.4
GENERAL RETAILERS					
Boots	14.59	-.2	13.3	3.8	2.9
Dixons	16.76	-.1	7.3	2.8	1.4
GUS	12.42	+.2	12.5	4.3	3.9
H & M B	66.00	-.8	12.6	0.3	0.6
Kingfisher	11.00	+.2	15.1	3.2	2.8
Marks & S	6.64	-.2	18.2	16.0	4.7
Metro AG	58.38	-2.0	16.8	0.1	1.7
Pinault Prin	181.20	+2.2	12.8	0.2	0.9
HEALTH					
Gambro A	7.29	-	2.5	0.6	1.5
Nycomed Amer	6.41	-	4.1	3.4	1.2
HOUSEHOLD & TEXTILES					
Adidas Salom	96.00	+.8	3.8	-	1.8
Christian Di	109.00	-2.2	4.5	0.1	2.8
Electrolux B	16.75	-1	6.6	2.6	1.7
LVMH	182	-2.1	17.3	0.3	1.0
Swatch Br	384.55	-10.3	2.8	-	1.2
Swatch Reg	126.51	-1.8	1.9	-	1.0
I.T. HARDWARE					
ASM Lithogra	38.45	-	3.8	1.6	-
Alcatel SA	103.30	+2.6	21.7	2.6	1.0
Ericsson B	22.48	-.4	42.8	3.5	0.9
Nokia A	136	+4.4	78.5	1.2	0.8
ST Microelect	74.20	-0.8	10.6	0.6	-
INSURANCE					
Axa	110.60	-4.7	39.7	1.2	[illegible]
Assurances Gen	116.30	+.5	6.4	-	0.7
Allianz	289	-.8	69.0	0.1	0.4
Allied Zurich	13.48	+.2	21.3	3.1	-
AGF	48.95	-1.1	9.0	0.7	1.6
Baloise (Reg	781.55	-4.5	4.5	-	2.9
CGU	14.18	+.5	19.5	5.0	3.8
Ergo Versich	130.55	+4.0	9.1	-	0.8
Fortis (B)	32.70	+.3	18.4	1.0	1.8
Fortis (NL)	33.70	+.2	18.6	1.3	1.6
Generali	34.30	-.4	36.6	2.2	0.6
GRE	5.13	-	4.6	0.6	1.2
ING	49.25	-1.2	46.6	3.9	2.4
Muench Re RP	277.30	+.6	32.1	-	-
Ras	9.66	-.4	6.4	1.4	2.6
Royal Sun Al	8.15	+.3	12.8	5.3	4.3
Skandia	16.30	+.2	6.3	2.2	0.6
Swiss Re R	1,981.52	-16.8	28.0	-	1.4
Zurich Allie	568.47	-4.8	27.6	0.1	1.2
INVESTMENT COMPANIES					
3i Group	6.57	-	5.2	0.4	2.2
Cobepa	68.35	-.6	3.0	-	1.8
GBL	171.00	+.2	4.8	-	2.3
LEISURE ENTERTAINMENT & HOTELS					
Accor	236	+4.0	7.8	0.1	1.6
Granada	16.61	-	16.0	1.9	1.4
Ladbroke	4.38	-	5.0	0.5	2.7
LIFE ASSURANCE					
Aegon	93.55	-1.0	59.8	1.7	0.8
Alleanza Ass	8.35	-	7.7	2.3	0.8
Ina	2.26	-	9.8	22.1	1.6
Legal & Gen	11.47	+.4	14.7	5.9	2.0
Norwich Un	6.60	-	12.9	3.4	3.1
Prudential	11.52	-.3	23.2	4.2	2.7
Sun Life & P	7.25	-	3.9	1.1	3.0
MEDIA & PHOTOGRAPHY					
B Sky B	6.36	-	14.4	3.5	1.2
Canal Plus	285.80	-14.2	8.9	0.1	1.1
Carlton C	9.18	-.1	3.8	5.1	2.5
EMI	6.63	-	5.2	[illegible]	[illegible]
Elsevier	14.45	-.2	9.8	[illegible]	[illegible]
Mediaset	6.45	-.4	10.0	[illegible]	1.6
Pearson	19.92	-.3	12.1	1.4	1.9
Reed Int	8.51	-.1	9.8	2.3	3.2
Reuters	12.80	+.1	18.3	6.5	1.9
Utd News	9.47	-.2	4.7	0.9	3.7
VNU NV	35.75	-1.0	7.9	1.9	0.9
WPP	7.92	+.1	5.8	2.4	0.5
Wolters Kluw	183.20	-0.8	11.3	0.6	0.8
MINING					
Billiton	1.95	-	4.2	11.8	5.0
Rio Tinto	11.78	-	12.5	1.5	4.2
OIL & GAS					
BP Amoco	12.73	+.2	123.7	15.8	3.3
Electrafina	103.50	+.7	4.1	-	3.5
ENI	5.42	-	43.4	33.9	2.7
Norsk Hydro	33.97	+.5	3.7	0.8	2.8
Petrofina	420	-4.8	10.1	-	2.8
Repsol	45.65	-.7	14.1	0.8	2.1
Royal Dutch	38.30	-	84.3	6.8	3.6
Shell Trans	4.88	-	48.7	14.8	4.2
Elf Aquitain	103.90	+.5	27.2	0.7	2.3
Total B	98.65	-1.2	23.5	0.6	2.1
PACKAGING					
Alusuisse-Lo	982.45	-0.6	6.1	-	-
PERSONAL & HOUSEHOLD PRODUCTS					
Beiersdorf	66.00	-.2	5.8	-	0.9
[illegible]	72.70	-8.3	4.2	-	1.2
Oreal	356	-10.8	32.4	[illegible]	0.4
Reckitt & C	11.85	-.2	4.8	1.6	3.1
PHARMACEUTICALS					
Astra A	17.81	-	23.3	3.8	1.2
Glaxo Wellcm	28.65	-.4	101.8	6.4	1.9
Novartis R	1,573.45	+3.0	[illegible]	0.1	1.8
Novo Nordisk	105.76	-.6	6.7	0.1	2.0
Roche Hold G	11,534.67	+204.4	100.0	-	0.4
Sanofi	159.70	-4.8	17.2	0.2	0.7
Schering	109.95	-1.6	7.8	-	1.3
SmKl Bchm	12.42	-.2	68.5	8.9	1.4
Synthelabo	207	-4.8	10.0	-	0.5
Zeneca	36.60	-.4	35.0	4.2	1.8
REAL ESTATE					
Br Land	7.85	-	4.1	2.8	1.9
Land Sec	12.29	-1	6.8	2.2	4.2
RESTAURANTS PUBS & BREWERIES					
Bass	12.72	-	10.1	3.4	4.4
Compass	11.31	+.2	7.7	0.1	0.7
Scot & New	10.81	-.1	6.4	2.1	4.3
Whitbread	13.22	+1	6.5	1.5	2.7
SOFTWARE & COMPUTER SERVICES					
Cap Gemini	154.10	+.6	10.7	0.2	0.2
Misys PLC	9.95	+.4	5.4	2.8	0.5
SAP (Pref)	395.40	-26.8	14.0	-	0.5
SAP	330.65	-22.4	12.7	-	0.8
Sema Gp	10.29	+1	4.9	2.2	2.4
SPECIALITY & OTHER FINANCE					
Amvescap	8.00	-.2	6.6	2.8	1.3
CLF Dexia	117	-1.0	4.2	0.1	2.3
Dexia	132.00	-4.4	4.8	-	0.7
Mediobanca	10	-.1	8.7	0.6	1.2
Paribas	78.95	-.2	12.0	0.2	3.2
Prov Finl	14.52	+.1	3.8	1.5	2.6
Schroders	18.19	+.4	5.5	0.4	1.4
SUPPORT SERVICES					
Adecco (Br)	477.87	+10.6	8.1	-	0.0
Hays	9.24	+.3	7.8	3.1	1.1
Randstad Hld	46.25	-.1	8.4	0.2	1.2
[illegible]	108.35	-4.1	4.4	0.1	1.8
Rentokil Ini	5.89	-	16.9	23.7	1.8
Sodexho	150	-0.7	0.8	0.1	0.8
TNT Post Grp	30.55	+.3	16.6	2.8	0.4
Williams	6.42	-.1	4.8	2.2	4.8
TELECOMMUNICATION SERVICES					
BT	15.80	-1	102.2	11.2	2.3
Cable & Wire	10.14	-.4	15.1	-	-
Cable & W	12.38	-1	28.6	4.8	1.6
Deutsche Tel	41	-0.6	28.3	0.4	1.4
France Telec	86.35	-0.6	25.3	1.2	1.2
Olivetti	3	-	8.8	55.7	-
Orange	12.76	-.1	15.3	1.8	-
Portugal Tel	40.30	+.4	8.4	-	2.8
ROYAL KPN	40.30	-1.4	21.1	1.4	2.8
Securicor	3.55	-.1	5.2	1.4	0.4
Swisscom (Re	335.04	+4.8	9.3	0.1	1.0
Tele Danmark	110.36	+2.0	11.9	0.7	2.3
Telecom Ital	9.47	-.1	70.0	32.7	1.0
TIM	6.20	[illegible]	47.4	14.7	[illegible]
Telefonica	41.20	-.6	43.2	3.6	1.1
[illegible]	3.85	-	8.3	15.8	-
Vodafone	16.25	-.3	50.4	8.7	0.7
TOBACCO					
Brit Am Tob	8.23	-.2	[illegible]	3.8	4.4
Gallaher	6.44	-.2	4.4	1.5	5.3
Imperial Tob	11	-	5.7	2.8	3.9
Richemont A	1,403.81	+23.4	7.4	-	1.0
Tabacalera	20	-.1	3.7	0.4	1.5
TRANSPORT					
[illegible]	12.77	-	3.2	0.8	2.6
BAA	10.46	+.1	11.1	2.3	2.5
DS 1912 B	5,790.24	-2.1	3.1	-	0.1
DS Svendbr	8,287.30	+23.1	3.1	-	0.1
Lufthansa	20.05	-.2	3.8	0.8	2.3
P & O	10.37	-.2	6.7	1.7	5.0
Railtrack	21.50	-1.0	10.8	1.2	2.8
Stagecoach	3.50	+.1	5.0	2.8	1.3
WATER					
Anglian Wtr	11.11	+.2	3.8	1.5	0.6
Severn Trent	13.37	+.1	4.5	1.8	4.0
Thames Water	15.13	+1	5.3	0.6	4.8
Utd Utils	11.58	-	6.4	2.7	5.4

Notes

Price data and market capitalisations supplied by FTSE International.

Market capitalisation figures are based on shares used in index calculations. Shares are not counted where foreign ownership restrictions apply. Market caps may include secondary lines not eligible as constituents.

Stocks in bold type are domiciled in Euro countries.

Trading Volumes and yields derived from local domestic markets and supplied by Financial Times Information.

Company classifications are based on those used for the FTSE Eurotop share indices.

LEGAL NOTICES

No. 00407 of 1999

IN THE HIGH COURT OF JUSTICE
CHANCERY DIVISION
COMPANIES COURT

IN THE MATTER OF
ROKSPUR PLC
- and -
IN THE MATTER OF THE
COMPANIES ACT 1985

NOTICE IS HEREBY GIVEN that the Order of the High Court of Justice (Chancery Division) dated 10th February 1999 confirming a cancellation of the share premium account of the above named Company was registered by the Registrar of Companies on 11th February 1999.

DATED 2nd March 1999

Nabarro Nathanson
50 Stratton Street
London W1X 6NX

Ref: BEW/RFB/RZV/R1140/57.

USD 20 000 000 000
EURO MEDIUM TERM NOTE PROGRAMME
OF SOCIETE GENERALE,
SGA SOCIETE GENERALE ACCEPTANCE N.V.
AND SOCIETE GENERALE AUSTRALIA LIMITED
SERIES 68/94-6, TR1
SGA SOCIETE GENERALE ACCEPTANCE N.V.
FRF 800 000 000 FLOATING RATE NOTES DUE JUNE 2004
ISIN CODE : XS0049009011

For the period March 01, 1999 to June 01, 1999
the new rate has been fixed at 9.48905 % P.A.
Next payment date : June 01, 1999
Coupon nr : 19
Amount :
FRF 2 424.98 for the denomination of FRF 100 000
FRF 24 249.79 for the denomination of FRF 1 000 000

THE PRINCIPAL PAYING AGENT
SOCIETE GENERALE BANK & TRUST S.A.
11-13, avenue Emile Reuter
L-2420 LUXEMBOURG

JGBs soar on cut in short-term rates

BENCHMARK BONDS

By Arkady Ostrovsky in London and John Labate in New York.

The Japanese government bond market soared yesterday after the Bank of Japan effectively cut the short-term interest rate to zero in a desperate attempt to kick-start the economy and persuade investors to buy longer-term bonds.

Meanwhile, the European government bond and US Treasury sectors lost some ground following fresh signs of strong economic growth in the US.

The overnight interest rate in Japan dropped to 0.02 per cent after the Bank of Japan injected Y1,800bn of extra liquidity into the money market.

Joanne Collins, a bond strategist at Daiwa Europe, said that by providing liquidity and keeping yields at the short end of the curve close to zero, the BoJ was driving investors "up the curve".

"Investors have to move up the yield curve in order to pick up any yield at all," she said.

The yield on the benchmark No 203 10-year JGB dropped to 1.69 per cent from Tuesday's 1.8 per cent. The March 10-year JGB future jumped from 131.8 to 133.03.

The Bank of Japan has been resisting pressure from the government to buy JGBs in order to support the long end of the curve. Its latest move, however, is seen as a signal to investors of its readiness to intervene in the bond market.

The Japanese bond market has also benefited recently from the u-turn decision by the Trust Fund Bureau to buy Y400bn of bonds in February and March.

Ms Collins said this and efforts by the Ministry of Finance to curb issuance of bonds with long maturities indicated that the government would support the bond market until the end of the current fiscal year and possibly into the new year.

While Japan is trying to reflate its economy, the US Treasury market is suffering once again from the strength of domestic economic growth. The latest survey by the National Association of *Purchasing Managers* showed strong expansion in the service sector, with its index rising from 54 to 57.

Jeremy Hawkins at Bank of America said that normally this figure would be all but ignored, but the nervousness in the market and the fear of the Federal Reserve raising interest rates means that any sign of strong economic growth in the US leads to a sell-off in Treasuries.

By early afternoon the benchmark 30-year US Treasury bond was down 5/8 to 93 21/32, sending the yield up to 5.673 per cent.

Among shorter-term issues the two-year note was 3/32 lower at 99 31/32, yielding 5.184 per cent, and the 10-year note had lost 15/32 to 95 1/4, yielding 5.376 per cent.

Investors are now focused on Friday's employment indicators. The consensus is the Fed would almost certainly tighten interest rates, if the pay-roll figures are stronger than expected.

The fall in the US Treasury market weighed on sentiment in the European markets, which have also suffered from the reluctance of the European Central Bank to cut interest rates.

The 10-year German bund future fell 0.45 to 113.45. Mr Hawkins said bunds were under additional pressure after the domestic insurance sector threatened to boycott the market in protest against the government's tax reform.

The UK gilts market was the worst performer of the day after the Monetary Policy Committee left interest rates unchanged at 5.50 per cent. The UK gilt future dropped 0.75 to 114.95.

Hutchison raises €500m

NEW ISSUES

By Khozem Merchant

Hutchison Whampoa, the Hong Kong-based conglomerate, became the first Asian corporate outside Japan to launch a euro-denominated bond. Its successful launch of a seven-year €500m issue follows an offering by a Japanese corporate borrower *earlier this week and reflects* improved sentiment towards Asian borrowers.

Like many other Asian corporates, Hutchison Whampoa has usually accessed the international debt market via a US dollar institutional investor base but the recent stabilisation in Asia has prompted a reassessment among bankers and encouraged borrowers to seek a new investor base in the euro-zone.

"One big advantage of coming to the euro-zone is that you are no longer dependent on yankee issues," said Deutsche Bank, which lead-managed the Hutchison Whampoa issue with HSBC Markets.

The bond, which was bought largely by European investors, was priced at a yield spread of 170 basis points over the relevant *bund and traded at 167 basis* points. Bankers said the issuer achieved relatively tighter pricing by issuing in euros.

A month ago market rumours suggested Hutchison Whampoa would issue a 10-year yankee following a $750m offering by Hong Kong's Mass Transit Railway Corporation, but price conditions were considered unattractive for the borrower. Yesterday's bond is a *consequence and, say bankers,* achieved the borrower's funding target while tapping a new investor class in the euro-zone.

Banco Santander, which is to merge with BCH, a rival Spanish bank, launched a three-year €300m bond. Some bankers said the all-in pricing of three-month euribor plus 10 basis points was too tight but Salomon Smith Barney, which led the issue with Barclays Capital, *defended the level of pricing,* saying it was in line with recent floating-rate bond issuance.

Slovenia, the highest-rated country in central and east Europe, is planning to raise around €400m in a eurobond issue to be lead-managed by Credit Suisse First Boston and Morgan Stanley Dean Witter.

The 10-year bond, which is expected to be the country's only foray into the market this year, will have the longest maturity of any issue by Slovenia since it first entered the international capital markets in 1996. Last year's €500m issue had a maturity of seven years.

The bond is likely to be launched today or at the beginning of next week, depending on market conditions, and is expected to be priced to yield between 80 and 90 basis points over German bunds.

New international bond issues

Borrower	Amount m.	Coupon %	Price	Maturity	Fees %	Spread bp	Book-runner
US DOLLARS							
Fannie Mae♦	3bn	5.375#	99.751R	Mar 2002	0.05R	+34(5%-Feb01)	Goldman/JPM/MSDW
World Bank(a)	250	5.15#	100.00	Mar 2004	0.03	-	Bear Stearns Intl
EUROS							
Lloyds Bank plc	500	4.75	99.214R	Mar 2011	0.425R	+95(3¾%-Jan09)	Goldman/Warburg DR
Hutchison Whampoa Fin	500	5.50	99.389R	Mar 2006	0.50R	+170(6Jan05)	Deutsche/HSBC Markets
Auto Community of Valencia	500	4.25	100.787	Mar 2009	3.00	-	Deutsche Bank
Santander Investments‡	300	(b)	99.865R	Mar 2002	0.125R	-	Barclays/Salomon SB
BMW (UK) Finance plc	800	3.875#	99.58R	Dec 2004	0.275R	[illegible]	Hypo/Salomon SB
STERLING							
Alliance & Leicester‡	150	(c)	99.90	Mar 2004	0.15	-	HSBC Markets
SWISS FRANCS							
Principal Fin Global Fndg(d)	250	2.25	100.60	Apr 2004	2.00	-	CSFB
Eurohypo(e)	200	2.75	102.15	Dec 2006	2.625	-	CSFB/Deutsche Bank

Final terms, non-callable unless stated. Yield spread (over relevant government bond) at launch supplied by lead manager. ♦Unlisted. ‡ Floating-rate note. #Semi-annual coupon. R: fixed re-offer price; fees shown at re-offer level. a) Callable on coupon dates from 16/3/00 at par. b) 3-mth Euribor +5bp. c) 3-mth Libor +8bp. d) Secured on funding agreement with Principal Life Insurance Co. e) Spread relates to German govt bonds. g) Hypotheken Pfandbrief. g) Short 1st coupon.

Liffe takes big lead in euribor futures

By Vincent Boland

The London International Financial Futures and Options Exchange has built a commanding lead in the market for three-month futures contracts based on euribor, the Brussels-sponsored reference rate for lending in euros.

Liffe said trading volume in the three-month contract rose nearly 300 per cent in February to some 2.7m contracts from just over 900,000 in January, when it converted its euromark and eurolira positions to euro Libor and euribor.

Its lead in the three-month euribor contract reflects its strength in short-term interest rate contracts over Eurex, Europe's biggest derivatives market. The German/Swiss exchange traded more than 730,000 three-month euribor contracts in the first two months of 1999.

Euribor has replaced euro Libor as the reference rate for lending in euros following intense political pressure from Brussels for Europe's banks to adopt it.

However, overall volumes on Eurex climbed 78 per cent in February compared with the same month in 1998 to 26.3m contracts, while turnover on Liffe was down 39 per cent. That reflects the gain to Eurex from winning the vast majority of trading in the 10-year bund future, the benchmark for government bonds in the euro zone.

Matif, the Paris derivatives market, saw its euribor futures trading rise 19 per cent to nearly 294,000 contracts *in February*. The exchange said 13.5 per cent of total trading in the contract came through its Euro Globex alliance with Meff, the Spanish market.

CBOT plans own global distribution

By Vincent Boland

The Chicago Board of Trade, the world's biggest derivatives market, plans to build a worldwide electronic distribution network for its products rather than pursue alliances with rival exchanges, its chairman said yesterday.

David Brennan, the former floor trader elected to head the CBOT at the end of last year, said the era of global alliances between derivatives markets "may have come to an end".

Investors are seeking greater competition among exchanges rather than complicated tie-ups, he said, which were too complicated, politically charged and expensive to implement.

"We can achieve global distribution of our products without an alliance," Mr Brennan said in an interview in London.

He said the CBOT hoped to achieve its aim by developing technology that would allow investors to trade electronically or to route trading on to its open-outcry trading floor in Chicago.

Plans for the CBOT to enter a strategic alliance with Eurex, Europe's dominant derivatives market, collapsed in January.

CBOT members voted to reject a tie-up with the German/Swiss exchange, which would have seen the two markets develop a shared electronic trading platform based on Eurex technology.

Mr Brennan, who made *clear in his campaign for the* CBOT chairmanship that he had reservations about the Eurex link, said relations with the European exchange were still "very friendly".

He felt there were "multiple problems" in the proposal, including questions of cost and control. "There were a whole lot of different things that made that questionable. The very firms that give us business were fearful of Eurex."

Developing "open architecture" technology and the CBOT's Project A workstations would provide users with all the benefits of an alliance, Mr Brennan insisted, saying formal link-ups took up too much management time and resources. "There are not too many of them that have really worked. It is easier to make progress by taking smaller steps."

Thomas Donovan, CBOT chief executive, said users of the exchange had expressed disapproval of tie-ups such as the one with Eurex. "Firms are saying to us they don't particularly like alliances and prefer competition between exchanges," he said.

They were speaking in London, where the CBOT unveiled price cuts for European users of Project A to bring costs into line with those in New York, claiming they would amount to average savings of 62 per cent for users outside the US.

Mr Brennan would not be drawn on the cost of developing the CBOT's own technology. There are 573 Project A workstations in use, including 18 in London and 42 in New York.

A further 11 are to be installed in London soon, and the system is being introduced into France with the start of trading in Paris tomorrow at Finacor, a CBOT member.

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

Mar 3	Red Date	Coupon	Bid Price	Bid Yield	Day chg yield	Wk chg yield	Month chg yld	Year chg yld
Australia	01/01	8.750	106.4128	5.07	-	+0.03	+0.38	-0.82
	08/08	8.750	123.0172	5.58	-0.02	+0.08	+0.47	-0.54
Austria	03/01	5.250	103.6800	3.34	+0.02	+0.14	+0.31	-0.71
	01/08	5.000	105.1700	4.26	+0.06	+0.18	+0.40	-0.79
Belgium	03/01	5.000	103.3100	3.30	+0.02	+0.17	+0.34	-0.76
	03/08	3.750	95.1600	4.36	+0.08	+0.18	+0.44	-0.69
Canada	12/00	5.000	99.5100	5.30	+0.01	+0.05	+0.47	+0.17
	09/08	6.000	104.5500	5.37	+0.02	+0.02	+0.38	-0.23
Denmark	11/00	9.000	108.5100	3.66	+0.05	+0.13	+0.25	-0.82
	11/09	6.000	111.6000	4.56	+0.05	+0.23	+0.58	-0.67
Finland	08/00	4.000	101.0300	3.16	+0.01	+0.14	+0.18	-0.83
	04/09	5.000	105.4730	4.32	-0.02	+0.17	+0.41	-0.63
France	07/00	4.000	100.9700	3.24	+0.06	+0.20	+0.29	-0.74
	04/08	7.250	120.5400	3.89	+0.08	+0.19	+0.48	-0.81
	04/08	4.000	97.8800	4.26	+0.08	+0.20	+0.50	-0.73
	04/29	5.500	106.4600	5.14	+0.06	+0.22	+0.49	-0.40
Germany	06/01	5.000	103.6900	3.23	+0.02	+0.16	+0.29	-0.69
	01/05	5.000	111.8000	3.88	+0.08	+0.18	+0.47	-0.76
	01/09	3.750	97.0100	4.13	+0.06	+0.17	+0.41	-0.82
	07/28	4.750	94.6500	5.10	+0.07	+0.20	+0.44	-0.44
Greece	03/00	9.900	100.2714	9.50	-0.02	-0.01	-0.80	-4.26
	01/09	6.300	100.9524	6.17	+0.08	+0.19	+0.01	-4.53
Ireland	10/01	6.500	107.7200	3.36	+0.01	+0.14	+0.27	-1.28
	08/08	[illegible]	[illegible]	4.31	+0.05	+0.19	+0.41	-0.81
Italy	07/01	4.500	102.5300	3.35	+0.02	+0.15	+0.32	-1.27
	07/03	4.500	103.2400	3.69	+0.04	+0.18	+0.29	-1.13
	05/08	4.500	101.2800	4.34	+0.07	+0.21	+0.44	-0.90
	11/27	6.500	118.2000	5.28	+0.06	+0.18	+0.44	-0.61
Japan	12/00	5.800	111.7820	0.26	-0.06	-0.07	-0.49	-0.36
	12/03	4.100	114.7440	0.94	-0.12	-0.18	-0.69	-0.31
	06/08	1.800	100.9690	1.69	-0.11	-0.21	-0.67	-0.01
	09/18	2.300	95.9900	2.67	-0.13	-0.26	-0.46	+0.03
Netherlands	01/01	9.000	110.1200	3.27	+0.06	+0.18	+0.34	-0.66
	07/08	3.750	95.6800	4.26	+0.09	+0.18	+0.48	-0.65
New Zealand	03/01	8.000	105.2843	5.08	-0.06	-0.04	+0.11	-2.50
	07/09	7.000	108.6737	5.87	-0.03	+0.10	+0.24	-1.09
Norway	05/01	7.000	104.0800	5.01	-0.06	+0.01	+0.21	+0.70
	05/09	5.500	103.6500	5.03	-0.06	+0.20	+0.31	-0.25
Portugal	03/00	5.375	102.2900	3.10	-	+0.07	+0.08	-1.06
	06/08	5.375	107.5900	4.36	+0.06	+0.21	+0.44	-0.80
Spain	01/01	5.000	102.2600	3.20	+0.04	+0.18	+0.26	-1.01
	07/09	5.150	104.4000	4.60	+0.04	+0.17	+0.72	-0.52
Sweden	05/00	10.250	107.5713	3.42	-0.02	+0.14	+0.14	-1.27
	05/08	6.500	114.8070	4.49	+0.03	+0.22	+0.48	-0.94
Switzerland	06/00	4.500	103.7500	1.45	+0.04	+0.11	+0.04	-
	01/08	4.250	115.0500	2.34	+0.04	+0.12	+0.07	-0.48
UK	11/01	7.000	104.7976	5.05	+0.13	+0.25	+0.46	-1.74
	12/03	6.500	107.0372	4.83	+0.13	+0.25	+0.61	-1.39
	12/08	5.750	108.8329	4.69	+0.08	+0.18	+0.49	-1.41
	12/28	6.000	122.4330	4.61	+0.06	+0.15	+0.38	-1.42
US	01/01	4.500	98.8217	5.16	-0.02	-	+0.40	-0.48
	02/04	4.750	97.9239	5.23	-0.08	-	+0.49	-0.59
	11/08	4.750	95.7083	5.32	-0.03	+0.01	+0.44	-0.52
	02/29	5.250	94.6790	5.62	-0.01	+0.01	+0.28	-0.46

London closing * New York mid-day. Source: Interactive Data/FT Information

Yields: Local market standard/Annualised yield basis. Yields shown for Italy exclude withholding tax at 12.5 per cent payable by nonresidents.

10 YEAR BENCHMARK SPREADS

Mar 3	Bid Yield	Spread vs Euros	Spread vs T-Bonds		Bid Yield	Spread vs Euros	Spread vs T-Bonds
Australia	5.58	+1.45	+0.23	Netherlands	4.29	+0.15	-1.07
Austria	4.41	+0.27	-0.95	New Zealand	5.88	+1.74	+0.52
Belgium	4.34	+0.20	-1.02	Norway	5.03	+0.89	-0.33
Canada	5.36	+1.22	-	Portugal	4.41	+0.27	-0.95
Denmark	4.53	+0.39	-0.83	Spain	4.44	+0.30	-0.92
Finland	4.31	+0.17	-1.05	Sweden	4.52	+0.38	-0.84
France	4.21	+0.07	-1.15	Switzerland	[illegible]	[illegible]	[illegible]
Germany	4.14	-	-1.22	UK	4.79	+0.65	-0.57
Greece	6.30	+2.16	-0.94	US	5.36	+1.22	-
Ireland	4.35	+0.21	-1.01				
Italy	4.31	+0.17	-1.05				
Japan	1.74	-2.40	-3.62				

Source: Interactive Data/FT Information. London closing. * New York closing. Annualised yield basis.

EMERGING MARKET BONDS

Mar 3	Red date	Coupon	S & P Rating	Bid price	Bid yield	Day's chge yield	Mth's chge yield	Spread vs US
[illegible]								

London closing. Prices in US$. Standard & Poor's ratings. Source: Interactive Data/FT Information

BOND FUTURES AND OPTIONS

France, Germany, Italy, Spain, UK, US, Japan, Euro

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
[illegible]							

US CORPORATE BONDS

Mar 2	Red date	Coupon	S & P Rating	Bid price	Bid yield	Day's chge yield	Mth's chge yield	Sprd v Tsys
[illegible]								
FHLMC	04/07	7.14	NA	107.9572	5.88	-0.05	+0.61	+0.58
SLMA	03/00	7.50	NA	102.1415	5.30	-0.03	+0.21	[illegible]
FNMA	02/18	8.95	NA	130.4988	6.19	-0.04	+0.58	+0.59
FFCB	08/06	[illegible]	NA	117.9898	[illegible]	-0.04	+0.63	+0.31
Stone Cont	02/01	9.88	B	101.6759	0.00	-	-	-
AK Stl	12/01	9.13	BB-	104.7500	0.00	-	-	-
Pecalle	06/04	10.75	B-	65.0000	0.00	-	-	-

NY latest. Standard & Poor's ratings. Yields: semi-annual basis. Source: Interactive Data/FT Information.

US INTEREST RATES

Latest

		Treasury Bills and Bond Yields			
Prime rate	7¾	One month	-	Two year	5.17
Broker loan rate	6¼	Two month	-	Three year	5.18
Fed.funds	4¾	Three month	4.65	Five year	5.26
Fed.funds at intervention	-	Six month	4.76	10-year	5.36
		One year	4.90	30-year	5.66

INTERNATIONAL BONDS

Mar 3	Red date	Coupon	S & P Rating	Bid price	Bid yield	Day's chge yield	Mth's chge yield	Spread v Govts
EIB	04/07	7.250	AAA	107.3072	6.08	+0.01	+0.83	+0.78
ABN Amro	06/07	7.125	AA-	103.6686	6.53	+0.01	[illegible]	+1.21
[illegible]								

London closing. Standard & Poor's ratings. Yields: Local market standard/Annualised basis. Source: Interactive Data/FT Information

UK BONDS

FTSE Actuaries Government Securities

Price Indices UK Gilts	Wed Mar 3	Day's chge %	Accrued interest	xd adj ytd	Total Return	Duration Years	Duration Yield	% Weight
1 Up to 5 years (16)	120.48	-0.26	[illegible]	[illegible]	[illegible]	2.33	5.00	[illegible]
[illegible]								

UK Indices

FT Fixed Interest Indices

UK GILTS PRICES

[illegible]					

Other Fixed Interest

Pound rises as UK interest rates held

MARKETS REPORT

By Alan Beattie

Sterling rose to record levels against the beleaguered euro yesterday as the Bank of England left repo rates on hold for the first time in six months.

The market had been split on the likely decision of the Bank's monetary policy committee, with around half expecting another cut and half no movement.

The pound leapt against the euro and the dollar in the aftermath of the announcement, and finished up at the end of London trading at $1.618 against the dollar and £0.675 against the euro.

The short sterling market, which has seen a fair amount of movement in recent weeks as opinion on UK interest rates has shifted around, took a good slice off prices at the front end of the strip. The contract expiring in June now implies a repo rate around 5¼ per cent by the middle of the year, up from closer to 5 per cent yesterday.

One analyst said that the market saw the MPC in pause mode at the moment. "I don't think we have necessarily seen the last rate cut," he said. "But recent survey data showing the green shoots of recovery in the manufacturing sector may have caused them to pause and take stock," he added.

■ The Brazilian Real stabilised yesterday after Tuesday's sharp fall.

After opening around the R$2.17 level, the Real held its own. By the end of trading in London yesterday it was at R$2.185 against the dollar.

An increase in Brazilian banks' compulsory reserve requirements on time deposits on Tuesday may have helped to stem some of the capital flight from the country. The reserve requirements will be increased from 20 per cent to 26.5 per cent on Friday and then to 30 per cent by March 12.

The Brazilian central bank made the move with the aim of reducing the ability of investors to take their money out of the country. Analysts said that the impact would be limited because the new regulation applied to the less liquid time, rather than sight, deposits.

But it was evidence that the central bank would fight depreciation if it threatened to get out of control and stoke inflation, they said.

Kevin Daly, emerging markets strategist at Standard and Poor's MMS in London, said that the pressure on the Real from foreign exchange obligations coming due was likely to override this attempt to prop up the currency.

"The overshooting process has not finished," he said. "But the policy options are limited. If the central bank raises interest rates to defend the currency, there will be a negative effect on the fiscal deficit."

Mr Daly said that a fair value for the Real was probably somewhere between R$1.75-2.00. "But these levels are unattainable until the currency has bottomed out," he said. "And the experience of east Asia suggests that could be some time," he added.

■ The continued sinking of Japanese interest rates towards zero helped to weaken the yen yesterday, although the currency remained well within its range of the past two weeks.

The overnight call rate in the Japanese money market approached zero yesterday, following the Bank of Japan's continued policy of pushing liquidity into the money market and guiding rates down.

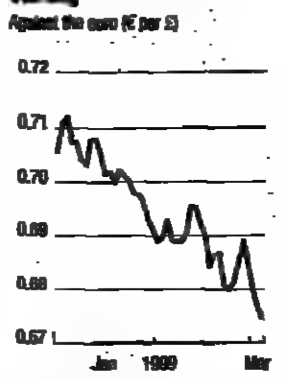
Yields on JGBs also fell sharply, which in turn helped the yen to fall. There has been a significant correlation between bond yields and the yen-dollar rate in recent weeks. The Bank of Japan is sensitive to the possibility of capital repatriation by Japanese banks before the end of the fiscal year driving up the yen.

The yen dipped below the Y121 level early in the Asian trading session, and continued to sink slowly throughout European trading hours. At the end of London trading it was at Y121.3.

Attention in the market shifted to what the Bank of Japan's next move to kick start domestic demand might be, particularly in view of yesterday's comments by BoJ Board member Kazuo Ueda that more options for credit easing were being considered.

Sterling

Against the euro (€ per £)



Source: Datastream/ICV

■ POUND IN NEW YORK

Mar 3	Latest	Prev. close
£ spot	1.6120	1.6170
1 mth	[illegible]	1.6163
3 mth	[illegible]	1.6157
1 yr	1.6117	1.6188

■ OTHER CURRENCIES

Mar 3	£	$
Czech Rp	55.5288 - 55.7125	34.3890 - 34.4330
Hungary	[illegible]	[illegible]
Iran	4854.80 - 4862.20	3000.00 - 3000.00
Kuwait	0.4928 - 0.4933	0.3047 - 0.3049
Peru	5.4962 - 5.5012	3.3982 - 3.4000
Poland	6.4258 - 6.4332	3.9738 - 3.9768
Russia	37.6282 - 37.8094	23.2700 - 23.3800
U.A.E.	5.9404 - 5.9431	3.6728 - 3.6731

POUND SPOT FORWARD AGAINST THE POUND

[illegible]

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

[illegible]

WORLD INTEREST RATES

MONEY RATES

[illegible]

INTERNATIONAL CURRENCY RATES

[illegible]

■ THREE MONTH EUROMARK FUTURES (LIFFE) DM1m points of 100%

[illegible]

■ THREE MONTH EUROLIRA FUTURES (LIFFE) L1000m points of 100%

[illegible]

■ THREE MONTH EURO LIBOR FUTURES (LIFFE) €1m 100 - rate

[illegible]

■ EUROLIRA OPTIONS (LIFFE) €1m 100 - rate

[illegible]

■ THREE MONTH EURO LIBOR OPTIONS (LIFFE) €1m 100 - rate

[illegible]

■ THREE MONTH EURO SWISS FRANC FUTURES (LIFFE) SFr1m 100 - rate

[illegible]

■ THREE MONTH EUROYEN FUTURES (LIFFE) Y100m 100 - rate

[illegible]

* LIFFE futures also traded on APT

■ EURO SWISS FRANC OPTIONS (LIFFE) SFr1m 100 - rate

Strike Price	Calls Mar	Calls Jun	Calls Sep	Puts Mar	Puts Jun	Puts Sep
98750	0.010	0.070	0.100	0.210	0.370	0.500
98875	0			0.325		

Est. vol. total, Calls 30 Puts 0. Previous day's open int., Calls 4130 Puts 3282

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

[illegible]

■ D-MARK FUTURES (CME) DM 125,000 per DM

[illegible]

■ JAPANESE YEN FUTURES (CME) Yen 12.5m per Yen 100

[illegible]

■ SWISS FRANC FUTURES (CME) SFr 125,000 per SFr

[illegible]

■ STERLING FUTURES (CME) £62,500 per £

[illegible]

UK INTEREST RATES

LONDON MONEY RATES

[illegible]

EMS EUROPEAN CURRENCY UNIT RATES

[illegible]

■ PHILADELPHIA SE £/$ OPTIONS £31,250 (cents per pound)

[illegible]

■ THREE MONTH STERLING FUTURES (LIFFE) £500,000 points of 100%

[illegible]

■ PHILADELPHIA SE D-MARK OPTIONS DM62,500 ($ per DM)

[illegible]

■ SHORT STERLING OPTIONS (LIFFE) £500,000 points of 100%

[illegible]

Est. vol. total, Calls 54030 Puts 35701. Previous day's open int., Calls 571520 Puts 649235

■ THREE MONTH EURODOLLAR (CME) $1m points of 100%

[illegible]

■ US TREASURY BILL FUTURES (CME) $1m per 100%

[illegible]

All Open interest figs. are for previous day

BASE LENDING RATES

	%		%		%
Adam & Company	5.50	Exeter Trust Limited	6.50	Smith & Williamson	5.50
Allied Irish Bank (GB)	5.50	●Robert Fleming & Co	5.50	Sun Bank	5.50
●Henry Ansbacher	5.50	Habib Bank AG Zurich	5.50	TSB	5.50
Banco Bilbao Vizcaya	5.50	Heritable & Gen Inv Bk	5.50	United Bank of Kuwait	5.50
Bank of Cyprus	5.50	C. Hoare & Co	5.50	Unity Trust Bank Plc	5.50
Bank of Ireland	5.50	●SG Hambros Bank & Trust	5.50	Whiteaway Laidlaw	5.50
Bank of India	5.50	Hongkong & Shanghai	5.50	Yorkshire Bank	5.50
Bank of Scotland	5.50	Investec Bank (UK) Ltd	5.50		
Barclays Bank	5.50	Julian Hodge Bank	5.50		
Brit Bk of Mid East	5.50	●Leopold Joseph & Sons	5.50		
●Brown Shipley & Co Ltd	5.50	Lloyds Bank	5.50		
Citibank NA	5.50	Midland Bank	5.50		
Clydesdale Bank	5.50	NatWestminster	5.50		
The Co-operative Bank	5.50	●Rea Brothers	5.50		
Coutts & Co	5.50	Royal Bk of Scotland	5.50		
Cyprus Popular Bank	5.50	Scottish Widows Bank	5.50		
Duncan Lawrie	5.50	●Singer & Friedlander	5.50		

● Members of London Investment Banking Association

COMMODITIES & AGRICULTURE

Crude oil rises on US inventory figures

MARKETS REPORT

By Robert Corzine, Gillian O'Connor and Paul Solman

Oil prices rose in reaction to new data showing a week-on-week fall in crude oil stocks in the US, the world's biggest petroleum market.

Brent Blend for April delivery was quoted at $11.33 a barrel in late trading on London's International Petroleum Exchange, up 33 cents from Tuesday's close.

The market was buoyed by separate surveys by the American Petroleum Institute and the US Department of Energy showing crude inventory reductions of 5.9m barrels and 3.2m barrels respectively.

There had been fears that a cut in US refinery runs might cause yet more oil to be added to the crude surplus that has depressed oil prices over the past year.

Uncertainty over when Iraq might be able to restore shipments through its pipeline to Turkey also helped lift prices, although United Nations officials said there was a chance that operations could be restored as early as last night.

The idea floated by UK chancellor Gordon Brown yesterday that the IMF should sell some of its gold holdings to help the world's poorest countries is far from new. However, gold experts believe it has a good chance of being adopted by the IMF this time, since the German and US governments have ceased to oppose the plan.

The idea could be discussed at the G7 summit this summer, but would still need an 85 per cent majority of the IMF executive board at its autumn meeting.

If it is approved, the IMF has already said it would phase the sales over up to 10 years and not rock the market. The last time the IMF sold gold, in the second half of the 1970s, it did so through public auctions.

The gold price was marginally easier yesterday, but analysts attributed this to the fall in silver, not to Mr Brown's proposal.

Andy Smith of Mitsui, a long-term bear of the gold price, argued IMF sales might increase the likelihood of governments deciding to reduce their own gold holdings.

Rhona O'Connell of T. Hoare & Co, a long-term bull, is still expecting a supply shortfall this year, and reckons the market will easily absorb any IMF sales in 2000 and subsequently.

Robusta coffee futures plunged on the London International Financial Futures and Options Exchange yesterday, the benchmark May contract closing down $68 at a 15-week low of $1,545 a tonne. Traders attributed the losses to continued worries about weakness in the Brazilian real, which are likely to prompt increased exports from the world's largest coffee producer.

Brazil's currency troubles also hit raw sugar futures, which dropped to fresh 12-year lows on the Coffee, Sugar and Cocoa Exchange in New York. In late trading, the May contract was 5.90 cents a pound against Tuesday's finish of 5.97 cents.

Australian wool industry hopes for new lease of life

Exports have crashed, prices are at their lowest ever and more than 15% of producers are bankrupt, writes Stephen Wyatt

Australia's wool industry is in trouble. Exports in both value and volume terms have crashed, real wool prices are at their lowest ever and stocks of wool yarns remain stubbornly high in Japan and western Europe.

More than 15 per cent of producers are bankrupt and the number of specialist wool producers fell by half in the first seven years of this decade.

This has happened despite plunging Australian wool production. Greasy wool production this decade has fallen 43 per cent to about 635,000 tonnes a year and sheep numbers, at 117m, are back to 1950s levels.

Even before the impact of the Asian crisis began to be felt, the Australian wool industry was reeling from a mixture of poor marketing policies at home and the loss of a big foreign customer – the Soviet Union.

In 1988/89 the Soviet Union and its eastern European satellites took about 19 per cent of Australia's wool exports. Today the republics of the former Soviet Union buy no Australian wool.

Attempts by the Australian wool industry to support export prices artificially by operating a reserve price scheme failed. So much wool was purchased by the growers body, the Australian Wool Corporation, that in 1990 the industry was sitting on a stockpile of more than 4.7m bales – nearly a year's production – and had a debt of over A$2bn (US$1.24bn).

'With weak retail demand in some key countries, it is difficult to see when fibre prices could once again start to rise'

Without Australian government guarantees on that debt, the Corporation, then in control of the stockpile, would have been bankrupt.

However, it survived after a fashion and the official wool stockpile was reduced to today's 1.1m bales and the debt to about A$230m.

Nevertheless, the industry is nowhere near recovering. In the midst of the restructuring, the Asian crisis hit with a vengeance. The Australian dollar wool price almost halved between June 1997 and October 1998. In US dollars it fell to US$3 a kg, its lowest for 25 years.

Since October, prices have struggled a little higher to around A$4.91 a kg based on the eastern market indicator – an average of all wool qualities.

However, even the body charged with promoting wool, the Woolmark Company, finds it difficult to be positive about wool's price prospects.

"Recent weeks have brought signs that fibre prices could be reaching a bottom, with prices for premium fibres, such as fine wool and cashmere, picking up a little," said the Woolmark Company in its latest monthly market briefing.

Shear drop: the number of specialist wool producers fell by half in the first seven years of this decade

But "with weak retail demand in some key countries, it is difficult to see when fibre prices could once again start to rise," it added.

What is worrying the wool industry is the lack of response in demand to lower prices. Prices have now been low for five years but still demand is declining, said Bob Richardson, chief executive of Wool International, the body now looking after Australia's remaining wool stockpile.

Australian greasy wool exports fell 19.4 per cent in volume to 632.77m kg and 29 per cent in value to A$2.77bn in the 12 months to end-January from the year earlier levels, according to recently released Woolmark figures.

"Internationally, commodities are a basket case and for wool, it's a disaster on the demand side," said Mr Richardson.

Australia's official price forecasting body, ABARE, holds much the same view.

"Weak demand and strong competition from lower priced synthetic fibres are expected to be the main factors contributing to poorer Australian wool prices in 1998/99," it said in its Australian Commodities quarterly.

Nevertheless, the wool industry continues to be one of Australia's most important agricultural sectors, contributing about 10 per cent of the country's gross value of agricultural production and generating export income of about A$3bn a year.

Australia is banking on wool having a new lease of life, along with the rest of the commodity markets, as the Asian economies recover.

NEWS DIGEST

POTATOES

Jump in prices boosts futures volumes on Liffe

Sharply higher potato prices across Europe helped boost futures contract volumes on the London International Financial Futures and Options Exchange by 76 per cent last month. Liffe's potato contract recorded average daily volume of 1,749 trades in February compared with 994 during the same month last year, the exchange said. The jump in potato prices since late last year, the result of wet weather squeezing supplies, was likely to have accounted for much of the extra interest in futures, Liffe said.

On the cocoa futures market, volumes rose by 75 per cent last month, though prices have been less volatile than in the potato market.

"Cocoa volumes have benefited from a good deal of switch activity, especially on the forward months," said Ian Dudden, head of commodity product development at Liffe. He said traders appeared to be altering their positions in the light of changes to the terms on the May 2000 cocoa contract and onwards. **Paul Solman**

APPLES

World output set for record

Apple production by the world's leading growers is expected to reach a record 45.9m tonnes in the current 1998/99 season, according to the US Department of Agriculture. Large crops in China, the US, Argentina and Chile will push total output up 4 per cent compared with last season, USDA said in its latest World Apple Situation report.

The crop in the US, the world's second largest apple producer, will be 6 per cent bigger than last time at 5m tonnes. The rise has been helped by a 20 per cent jump in the crop from Washington, the country's main apple growing state. Washington will account for more than half the total US production of apples in 1998/99, USDA said.

Chile is also expected to harvest a record crop of 1m tonnes, 4 per cent higher than last season. USDA said an increase in the number of fruit-bearing trees, coupled with the end of very dry weather, had boosted volumes. Output from China, the world's largest apple producer, will rise 7 per cent to 18.6m tonnes, while Argentina's production is expected to increase by 7 per cent to 1.3m tonnes.
Paul Solman

POWER

Elkem to build gas plant

Elkem, the Norwegian metals producer, is expected to reveal joint plans today to build a gas-fired power plant in western Norway worth several billion kroner.

The company, together with Statoil, Norway's state-owned oil company, and Norske Skogindustrier, its largest paper products company, are expected to file for a concession from the government to build and operate a combined heat and power generation plant in Skogn, Norway under the joint venture Industrikraft Midt-Norge.
Valeria Sköld in Oslo

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE
(Prices from Amalgamated Metal Trading)

■ ALUMINIUM, 99.7 PURITY ($ per tonne)

	Cash	3 mths
Close	1151.5-2.5	1173-4
Previous	1147-48	1169-70
High/low		n/a
AM Official	1150.5-51	1172.5-73
Kerb close		n/a
Open int.	295,940	
Total daily turnover	45,484	

■ ALUMINIUM ALLOY ($ per tonne)

Close	1007-12	1030-35
Previous	998-1003	1025-27
High/low		n/a
AM Official	1008-10	1033-34
Kerb close		n/a
Open int.	6,736	
Total daily turnover	849	

■ LEAD ($ per tonne)

Close	517-18	517.5-8.5
Previous	514.5-5.5	514.5-5.5
High/low		n/a
AM Official	516-7	518-9
Kerb close		n/a
Open int.	37,498	
Total daily turnover	8,409	

■ NICKEL ($ per tonne)

Close	4910-20	4970-75
Previous	4885-95	4920-25
High/low		n/a
AM Official	4885-95	4950-56
Kerb close		n/a
Open int.	73,612	
Total daily turnover	11,085	

■ TIN ($ per tonne)

Close	5375-85	5315-20
Previous	5115-25	5145-50
High/low		n/a
AM Official	5400-05	5340-45
Kerb close		n/a
Open int.	21,553	
Total daily turnover	2,804	

■ ZINC, special high grade ($ per tonne)

Close	1044-45	1053-54
Previous	1055-56	1062.5-63.5
High/low		n/a
AM Official	1054-54.5	1063.5-64
Kerb close		n/a
Open int.	99,530	
Total daily turnover	18,052	

■ COPPER, grade A ($ per tonne)

Close	1383-4	1409-10
Previous	1370.5-71.5	1396.5-97
High/low		n/a
AM Official	1381-81.5	1406.5-07
Kerb close		n/a
Open int.	171,209	
Total daily turnover	34,371	

■ LME AM Official £/$ rate: 1.6080
LME Closing £/$ rate: n/a

Spot: 1.6130 3 mths: 1.6119 6 mths: 1.6124 9 mths: 1.6136

■ HIGH GRADE COPPER (COMEX)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	62.55	+0.40	63.00	62.40	850	3,064
Apr	62.50	+0.40	63.00	62.95	151	3,620
May	63.40	+0.40	63.90	62.90	8,322	41,186
Jun	63.80	+0.35	64.15	63.80	12	1,696
Jul	64.10	+0.35	64.60	64.05	289	9,516
Aug	64.45	+0.35	64.00	64.00	21	1,452
Total					9,912	77,708

PRECIOUS METALS

■ LONDON BULLION MARKET
(Prices supplied by N M Rothschild)

Gold(Troy oz)	$ price	£ equiv	Eur equiv
Close	286.80-287.30		
Opening	286.30-286.70		
Morning fix	286.650	177.339	262.500
Afternoon fix	285.950	176.840	262.099
Day's High			
Day's Low			
Previous close	287.90-288.40		

Loco Ldn Mean Gold Lending Rates (Vs US$)

1 month ....4.23 6 months 4.07
2 months ....4.20 12 months 3.77
3 months 4.17

Silver Fix	p/troy oz.	US cts equiv.
Spot	330.448	535.00

Silver Lending Rates

1 month ....-2/0 6 months ....-2/0
2 months ....-2/0 12 months ....-2/0
3 months ....-2/0

Gold Coins	$ price	£ equiv.
Krugerrand	290-294	179-182
New Sovereign	68-72	42-45

Precious Metals continued

■ GOLD COMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	287.2	+0.5	285.0	285.0	16	18
Apr	288.3	+0.3	288.4	287.2	49,280	107k
Jun	290.1	+0.3	290.2	288.8	2,180	24,681
Aug	292.1	+0.3	292.3	292.2	307	7,101
Oct	294.0	+0.3	293.8	293.8	53	2,856
Dec	295.9	+0.6	298.2	295.0	83	12,891
Total					52,131	191,622

■ PLATINUM NYMEX (50 Troy oz.; $/troy oz.)

Apr	372.2	-4.0	375.0	369.0	2,410	14,250
Jul	369.7	-3.6	371.0	367.0	66	2,723
Oct	369.7	-3.1	368.0	368.0	13	982
Total					2,489	17,989

■ PALLADIUM NYMEX (100 Troy oz.; $/troy oz.)

Mar	346.60	-8.70	350.00	347.50	30	319
Jun	344.65	-8.75	350.00	344.20	142	2,401
Sep	337.85	-8.70	-	-	15	146
Total					187	3,037

■ SILVER COMEX (5,000 Troy oz.; Cents/troy oz.)

Mar	525.6	-7.5	536.0	520.0	1,114	4,414
May	524.5	-7.8	536.0	517.0	28,418	56,927
Jul	525.3	-7.2	535.5	518.0	813	16,967
Sep	525.3	-5.0	534.0	523.0	288	4,293
Dec	523.5	-3.0	531.0	518.0	333	8,390
Jan	523.2	-22.2	-	-	-	11
Total					31,016	87,800

ENERGY

■ CRUDE OIL NYMEX (1,000 barrels; $/barrel)

	Latest price	Day's change	High	Low	Vol	Open int
Apr	12.85	+0.34	12.99	12.54	48,377	114k
May	12.97	+0.33	13.10	12.69	21,248	73,240
Jun	13.07	+0.32	13.20	12.80	9,102	58,323
Jul	13.15	+0.29	13.25	12.99	1,990	28,669
Aug	13.32	+0.36	13.32	13.10	808	19,962
Sep	13.32	+0.26	13.35	13.19	1,137	14,292
Total					84,672	525,847

■ CRUDE OIL IPE ($/barrel)

	Sett price	Day's change	High	Low	Vol	Open int
Apr	11.33	+0.33	11.38	11.02	34,102	51,263
May	11.47	+0.36	11.50	11.18	12,675	52,637
Jun	11.61	+0.35	11.62	11.33	4,604	20,445
Jul	11.74	+0.33	11.75	11.48	722	16,814
Aug	11.88	+0.13	11.70	11.64	231	6,679
Sep	11.90	+0.20	11.90	11.78	500	5,128
Total					n/a	n/a

■ HEATING OIL NYMEX (42,000 US galls.; c/US galls.)

	Latest price	Day's change	High	Low	Vol	Open int
Apr	33.35	+0.87	33.80	32.50	11,879	44,949
May	33.75	+0.77	34.30	33.10	3,804	21,381
Jun	34.30	+0.77	34.90	33.90	1,352	19,134
Jul	35.25	+1.02	35.50	34.80	391	12,464
Aug	35.90	+0.87	36.40	35.55	151	9,779
Sep	36.50	+0.57	37.30	36.40	[illegible]	6,046
Total					17,882	158,468

■ GAS OIL IPE ($/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	100.75	+3.50	101.00	97.75	11,061	22,089
Apr	100.75	+3.00	101.25	98.25	6,898	25,626
May	102.00	+2.50	102.50	99.75	3,282	14,318
Jun	103.75	+2.25	104.50	102.25	1,911	13,462
Jul	106.25	+2.35	106.75	104.50	265	5,884
Aug	108.75	+2.25	108.75	107.25	594	5,550
Total					28,009	129,087

■ NATURAL GAS IPE (1,000 therms; pence per therm)

Mar	9.250	-0.030	9.280	9.240	430	3,825
Apr	9.160	-0.010	9.170	9.170	150	2,040
Total					1,235	22,570

■ NATURAL GAS NYMEX (10,000 mmBtu.; $/mmBtu.)

	Latest price	Day's change	High	Low	Vol	Open int
Apr	1.710	+0.014	1.722	1.685	28,113	66,980
May	1.745	+0.015	1.756	1.715	7,344	20,832
Jun	1.775	+0.015	1.780	1.755	3,553	20,581
Jul	1.810	+0.010	1.820	1.800	2,075	16,738
Aug	1.845	+0.005	1.855	1.840	1,888	14,439
Sep	1.885	+0.005	1.895	1.875	782	15,863
Total					52,449	284,008

■ UNLEADED GASOLINE
NYMEX (42,000 US galls.; c/US galls.)

	Latest price	Day's change	High	Low	Vol	Open int
Apr	39.65	+1.21	40.10	38.11	13,575	41,012
May	40.75	+1.15	41.10	39.75	4,538	20,649
Jun	41.50	+0.95	41.80	40.73	2,245	18,889
Jul	42.35	+1.15	42.55	41.70	999	16,712
Aug	42.45	+0.85	42.85	42.00	465	4,317
Sep	42.85	+1.15	42.85	42.55	19	3,794
Total					32,074	112,465

GRAINS AND OIL SEEDS

■ WHEAT LIFFE (100 tonnes; £ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	72.00	-	72.00	72.00	17	90
May	74.10	-0.15	74.75	74.00	86	3,501
Jul	76.00	-0.25	76.50	76.00	115	1,280
Sep	74.30	-0.20	-	-	-	191
Nov	76.30	-0.20	76.75	76.25	29	2,695
Jan	76.30	-0.20	-	-	-	431
Total					287	8,213

■ WHEAT CBT (5,000bu min; cents/60lb bushel)

Mar	250.25	-3.00	255.50	249.00	7,632	5,294
May	260.50	-3.25	265.50	259.50	11,218	49,550
Jul	270.25	-3.25	275.25	269.50	21,938	56,369
Sep	280.25	-3.75	285.25	279.50	732	5,406
Dec	294.50	-4.00	299.25	294.50	1,141	7,491
Mar	304.00	-3.50	308.50	305.00	300	2,330
Total					43,288	126,820

■ MAIZE CBT (5,000 bu min; cents/56lb bushel)

Mar	209.00	-1.25	211.00	208.00	8,608	19,018
May	214.75	-1.00	216.50	214.00	36,824	141,821
Jul	221.25	-1.00	222.75	220.25	10,148	105,511
Sep	226.25	-0.50	229.00	227.50	1,853	24,277
Dec	237.25	-1.00	238.25	236.50	6,239	65,089
Mar	244.75	-1.25	245.75	244.25	266	145,6.5
Total					68,832	387,308

■ BARLEY LIFFE (100 tonnes; £ per tonne)

Mar	73.75	-0.60	75.25	75.25	11	67
May	73.75	-0.50	73.75	73.75	10	163
Sep	73.50	-0.25	-	-	-	85
Nov	75.75	-0.25	75.75	75.50	20	278
Jan	77.75	-0.25	-	-	-	20
Total					10	565

■ SOYABEANS CBT (5,000bu min; cents/60lb bushel)

Mar	458.50	-4.00	462.50	458.00	3,604	6,207
May	467.75	-3.75	471.50	467.00	41,608	80,005
Jul	477.00	-3.00	480.00	476.50	7,367	44,585
Aug	481.00	-3.00	483.00	480.50	911	14,103
Sep	482.00	-4.00	487.00	481.50	201	5,022
Nov	491.25	-2.50	494.00	490.25	4,947	493,3.6
Total					59,209	157,087

■ SOYABEAN OIL CBT (60,000lbs; cents/lb)

Mar	18.09	-0.16	18.25	18.06	4,348	3,914
May	18.36	-0.18	18.58	18.35	17,178	53,520
Jul	18.64	-0.20	18.85	18.65	8,311	32,773
Aug	18.80	-0.19	19.02	18.85	622	7,222
Sep	18.90	-0.20	19.20	18.95	346	7,167
Oct	19.05	-0.20	19.30	19.12	199	4,357
Total					32,328	126,549

■ SOYABEAN MEAL CBT (100 tons; $/ton)

Mar	124.4	-1.3	125.7	123.8	2,907	7,418
May	127.1	-1.1	128.4	126.8	12,949	47,435
Jul	129.6	-0.8	130.6	129.2	5,843	38,893
Aug	131.2	-0.8	132.5	131.0	778	10,940
Sep	133.0	-0.5	134.0	132.8	302	8,979
Oct	134.5	-1.0	135.5	134.5	286	4,204
Total					24,116	130,074

■ POTATOES LIFFE (20 tonnes; £ per tonne)

Apr	280.0	+1.0	282.5	277.0	21	1,900
May	313.0	-4.0	340.0	340.0	17	29
Jun	323.0	-4.0	-	-	-	-
Nov	85.0	-	-	-	-	3
Mar	112.0	-2.0	-	-	-	-
Total					24	1,986

■ FREIGHT (BIFFEX) LIFFE ($10/index point)

Mar	945	-20	980	945	18	212
Apr	975	-10	986	970	32	886
Jul	845	-5	845	845	19	563
Oct	950	+6	950	950	-	370
Jan	970	-	1000	995	10	29
Total					78	2,070

	Close	Prev
BFI	976	979

PULP AND PAPER

■ PULPEX OMLX (US$, 24 air dry tons)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	396.25	+0.25	395.25	395.00	18	251
Jun	421.00	+2.00	421.00	419.50	67	329
Total						

FUTURES DATA
All futures data supplied by CMS.

Nuts and seeds Prices from Kenkko London $ per m/t. Iranian pistachios 28/30 raw (in shell) nat. open (round): crop 98: 28/30 at 2,600, FCA Europe, 20/22 at 3,600 FCA Europe. Prices subject aflatoxin passage; 80 per cent goods RPPC passed. Turkish hazelnuts 13/15 and 11/13, crop 98 indication 3,850 CFR. Market decreasing slowly. Indian cashews crop 98 CFR from top shippers, W320 at 5,800, W240 at 6,700. Spot W320 at 5,950 FCA Rotterdam. US almonds standard 5 per cent crop 98 at 3,000. Indication for crop 99 at 2,750 FAS for St. 5 per cent. All FAS. Moldovian walnuts crop 98 light halves/pieces 3,550 CFR MEP (duty paid).

SOFTS

■ COCOA LIFFE (10 tonnes; £/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	860	-6	864	862	249	5,595
May	854	-9	863	832	7,260	60,038
Jul	874	-8	881	865	2,360	14,024
Sep	894	-8	902	878	1,803	30,484
Dec	918	-	922	903	1,882	26,263
Mar	938	-8	941	920	511	17,804
Total					14,844	158,880

■ COCOA CSCE (10 tonnes; $/tonnes)

Mar	1230	-3	1225	1200	109	606
May	1228	-13	1232	1202	8,097	34,819
Jul	1250	-15	1256	1230	863	12,016
Sep	1276	-16	1280	1256	231	6,661
Dec	1313	-18	1318	1295	63	5,999
Mar	1351	-18	1360	1339	120	6,527
Total					10,023	69,486

■ COCOA (ICCO) (SDR's/tonne)

Mar 2	Price	Prev. day
Daily	989.29	1017.01

■ COFFEE LIFFE (5 tonnes; $/tonne)

Mar	1742	-53	1805	1735	1,100	9,071
May	1547	-68	1616	1545	9,000	24,908
Jul	1535	-57	1598	1535	4,000	7,930
Sep	1532	-	1590	1543	550	2,550
Nov	1527	-50	1579	1535	161	1,172
Jan	1522	-45	1565	1550	12	282
Total					15,856	46,112

■ COFFEE 'C' CSCE (37,500lbs; cents/lbs)

Mar	100.00	-3.40	103.50	99.00	376	1,035
May	100.65	-3.15	104.00	100.00	4,063	23,032
Jul	102.30	-3.00	105.25	102.00	652	6,588
Sep	104.25	-2.50	106.80	104.00	299	3,861
Dec	106.05	-2.30	108.20	106.00	134	1,887
Mar	107.65	-2.50	109.60	108.00	13	555
Total					6,146	37,007

■ COFFEE (ICO) (US cents/pound)

Mar 2		Prev. day
Comp. daily	90.43	90.31
15 day average	91.83	91.96

■ WHITE SUGAR LIFFE (50 tonnes; $/tonne)

May	209.0	-3.3	215.4	208.1	2,738	34,719
Aug	201.9	-3.4	207.5	200.6	1,772	12,405
Oct	195.9	-2.4	200.5	194.2	484	8,737
Dec	196.6	-2.5	200.1	195.5	284	2,183
Mar	201.1	-1.7	203.5	200.0	194	2,989
May	202.3	-2.1	204.0	204.0	50	991
Total					5,337	62,886

■ SUGAR '11' CSCE (112,000lbs; cents/lbs)

May	5.85	-0.12	6.05	5.80	9,213	71,060
Jul	5.58	-0.18	5.83	5.55	7,562	43,983
Oct	5.95	-0.16	6.13	5.91	3,657	25,481
Mar	6.60	-0.08	6.72	6.58	1,365	18,407
May	6.67	-0.08	6.78	6.68	195	2,642
Jul	6.69	-0.06	6.74	6.70	14	1,805
Total					22,241	162,178

■ COTTON NYCE (50,000lbs; cents/lbs)

Mar	66.05	+0.33	66.25	65.75	164	1,926
May	60.56	+0.12	60.90	59.73	8,474	32,542
Jul	60.10	+0.03	59.60	58.65	1,601	15,996
Oct	59.10	-0.15	60.00	59.00	3	1,707
Dec	59.20	-0.03	60.00	59.00	1,545	16,255
Mar	60.07	+0.07	60.60	60.07	-	2,045
Total					11,861	72,844

■ ORANGE JUICE NYCE (15,000lbs; cents/lbs)

Mar	86.00	-1.00	86.90	86.00	446	1,488
May	81.85	-	82.75	81.00	1,407	16,303
Jul	81.65	-0.45	82.25	80.75	244	5,159
Sep	81.55	+0.60	82.10	81.25	37	2,219
Nov	81.65	+0.70	82.00	81.75	36	1,467
Jan	82.15	+0.70	-	-	-	989
Total					2,181	27,942

VOLUME DATA
Open interest and Volume data shown for contracts traded on COMEX, NYMEX, CBT, NYCE, CME, CSCE and IPE Crude Oil are one day in arrears. Volume & Open Interest totals are for all traded months.

INDICES

■ Reuters (Base: 18/9/31 = 100)

Mar 3	Mar 2	month ago	year ago
1408.4	1404.7	1447.8	1686.3

■ CRB Futures (Base: 1967 = 100)

Mar 2	Mar 1	month ago	year ago
184.46	184.17	-	-

■ GSCI Spot (Base: 1970 = 100)

Mar 2	Mar 1	month ago	year ago
132.62	131.17	133.49	165.10

LME WAREHOUSE STOCKS (tonnes)

Aluminium	-150	to	812,900
Aluminium alloy	+340	to	87,520
Copper	-775	to	694,750
Lead	-275	to	107,450
Nickel	+402	to	60,894
Zinc	-825	to	310,250
Tin	+175	to	8,970

MEAT AND LIVESTOCK

■ LIVE CATTLE CME (40,000lbs; cents/lbs)

	Sett Price	Day's change	High	Low	Vol	Open int
Apr	68.250	+0.550	68.650	67.550	5,165	53,973
Jun	66.600	+0.150	66.825	66.075	2,314	31,637
Aug	63.975	+0.025	64.175	63.850	1,130	16,076
Oct	65.525	-	65.750	65.225	606	3,322
Dec	67.050	-0.125	67.100	66.650	277	3,985
Feb	67.850	-0.850	68.050	67.750	88	819
Total					9,607	114,910

■ LEAN HOGS CME (40,000lbs; cents/lbs)

Apr	42.550	-0.500	42.800	42.100	4,078	17,204
Jun	53.950	-0.975	54.450	53.600	2,765	10,287
Jul	54.775	-0.800	55.150	54.475	629	4,422
Aug	55.425	-0.225	55.650	54.750	287	3,970
Oct	54.050	-0.750	54.650	54.000	179	4,536
Dec	54.875	-0.275	55.100	54.825	88	2,104
Total					8,084	43,018

■ PORK BELLIES CME (40,000lbs; cents/lbs)

Mar	48.500	+0.725	48.900	47.100	810	1,167
May	50.425	+0.850	51.050	49.125	841	2,277
Jul	51.600	+0.075	51.500	50.500	145	824
Aug	51.250	-0.275	51.000	50.500	32	323
Total					1,828	4,611

LONDON TRADED OPTIONS

Strike price $ tonne	Calls		Puts	
■ ALUMINIUM (99.7%) LME	Apr	Jul	Apr	Jul
1150	28	61	19	31
1200	9	36	49	55
1250	2	20	92	88
■ COPPER (Grade A) LME	Apr	Jul	Apr	Jul
1350	64	107	18	40
1400	35	79	39	61
1450	17	56	71	87
■ COFFEE LIFFE	May	Jul	May	Jul
1600	142	27	1	80
1650	92	76	1	116
1700	43	8	1	161
■ COCOA LIFFE	May	Jul	May	Jul
900	13	29	59	55
925	10	20	61	71
950	7	14	103	90
■ BRENT CRUDE IPE	Mar	Apr	Mar	Apr
1050	74	-	9	29
1100	38	-	21	-
1150	23	48	-	-

LONDON SPOT MARKETS

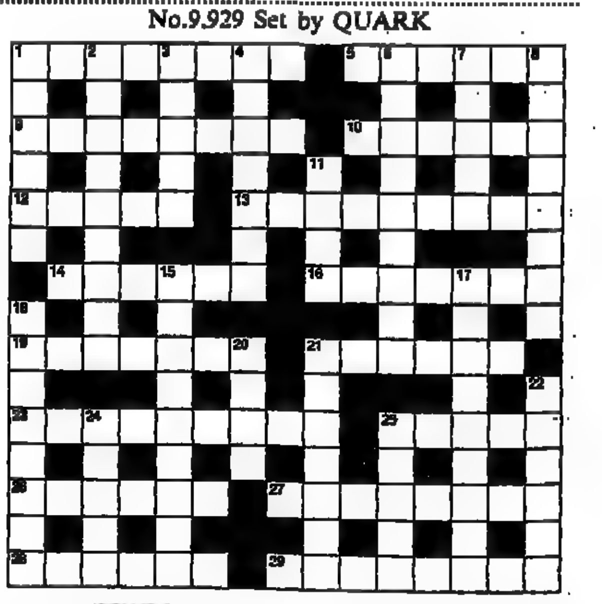
■ CRUDE OIL FOB (per barrel)

		+or-
Dubai	$10.71-0.81	+0.355
Brent Blend (dated)	$10.74-0.78	+0.300
Brent Blend (Apr)	$11.29-1.33	+0.400
W.T.I.	$12.86-2.88x	+0.440
■ OIL PRODUCTS NWE prompt delivery CIF (tonne)		
Premium Gasoline	$120-122	+3
Gas Oil	$105-107	+4
Heavy Fuel Oil	$56-58	-1
Naphtha	$104-106	+5
Jet fuel	$114-115	-3.5
Diesel	$109-110	+5
■ NATURAL GAS (Pence/therm)		
Bacton (Apr)		
Petroleum Argus. Tel. London (0171) [illegible]	9.23-0.28	-0.02
■ OTHER		
Gold (per troy oz)♣	$287.05	-1.10
Silver (per troy oz)♣	526.00c	-20.00
Platinum (per troy oz.)	$372.00	-4.00
Palladium (per troy oz.)	$350.00	
Copper	67.0c	
Lead (US Prod.)	45.00c	
Tin (Kuala Lumpur)	19.90r	
Tin (New York)	758.5	
Cattle (live weight)	97.02p	-2.94*
Sheep (live weight)	89.38p	+3.94*
Pigs (live weight)	61.39p	+8.38*
Lon. day sugar (raw)	$157.70	-0.80
Lon. day sugar (wte)	$226.50	-0.80
Barley (Eng. feed)	Unq	
Maize (US No3 Yellow)	£109.00	
Wheat (US Dark North)	Unq	
Rubber (Mar)♥	45.50p	
Rubber (Apr)♥	46.00p	
Rubber (KL RSS No1)	259.50m	
Coconut Oil (Phil)§	720.0	+15.0
Palm Oil (Malay)§	510.0y	
Copra (Phil)§	445.0y	
Soyabeans (US)	148.5y	
Cotton Outlook 'A' index	55.90	
Wooltops (64s Super)	290p	

£ per tonne unless otherwise stated. p pence/kg. c cents/lb. r ringgit/kg. m Malaysian cents/kg. y [illegible] § CIF Rotterdam. ♣ Bullion market close. [illegible] * Change on week. [illegible]

CROSSWORD

No.9,929 Set by QUARK



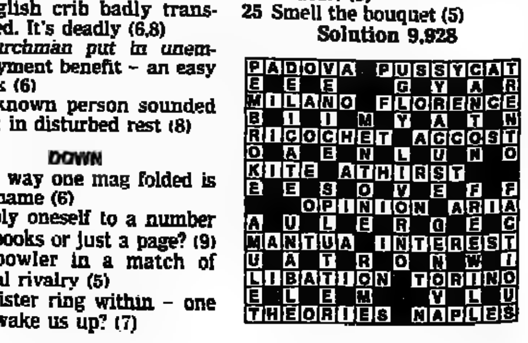
ACROSS

1 Weather's 'arsh pattern (8)
5 Resentful? You need a drink (6)
9, 10 To RN, purer gin is smashing, giving extra resilience within?(8-6)
12 Close of the farming year (5)
13 Don't partake of so much – it's insipid (9)
14 One was once in the field playing a sport (6)
16 A rowing contest? (7)
19 Army unit's region to take back (7)
21 Compound diode – one that's been replaced (6)
23 Run smoothly a film that shows sequence in operation (4,5)
25 Suit to fit (5)
26, 27 MA (Oxon) don with English crib badly translated. It's deadly (6,8)
28 *Churchman put in unemployment benefit – an easy task* (6)
29 Unknown person sounded bell in disturbed rest (8)

DOWN

1 The way one mag folded is a shame (6)
2 Apply oneself to a number of books or just a page? (9)
3 A bowler in a match of local rivalry (5)
4 Register ring within – one to wake us up? (7)
6 I am short of time and affected favourably (9)
7 Copper up in time about to produce a stop to unpleasantness (5)
8 Record teacher marks at school (8)
11 Worn out and pickled? Not so (4)
15 Time soot load is moved – it's not to be taken in (9)
17 Servant subjected to jargon endlessly (9)
18 Put a new front on building after a bit of pebble-dash introduced (8)
20 Fix rook in a row (4)
21 Early service piece (7)
22 Change direction around NE to cover real situation (6)
24 A boat could be capsized – O dear! (5)
25 Smell the bouquet (5)

Solution 9,928



For solutions to today's crossword call 0906 843 0060. Calls cost 60p a minute.

J.P. Mi 150

FT MANAGED FUNDS SERVICE

● FT CityLine Unit Trust Prices are available over the telephone. Call the FT CityLine Help Desk on (+44 171) 873 4378 for more details.

OFFSHORE AND OVERSEAS

BERMUDA
(FSA RECOGNISED)

Fidelity Currency Funds Ltd

[illegible]

BERMUDA
(REGULATED)(**)

[illegible]

CAYMAN ISLANDS
(REGULATED)(**)

[illegible]

MFS Meridian Funds - Contd.

[illegible]

GUERNSEY
(FSA RECOGNISED)

[illegible]

Royal Bk of Canada O/S Fd Mgrs Ltd

[illegible]

GUERNSEY
(REGULATED)(**)

[illegible]

IRELAND
(FSA RECOGNISED)

AIB Fund Management Ltd

ABN AMRO Global Liquidity Funds Plc (a)

[illegible]

Bank of Cyprus Group

[illegible]

Baring Intl Fd Mngrs (Ireland) Ltd

[illegible]

GT Global - Contd.

[illegible]

The Hotel Mutual Investment Company Plc

[illegible]

Henderson Crosthwaite Investment Co

[illegible]

IRELAND
(REGULATED)(**)

[illegible]

AIG Asset Management Ltd

[illegible]

The Golden Gate Fund Plc

Goldman Sachs

[illegible]

Gordon House Asset Management Ltd

[illegible]

Putnam World Trust

RMB Global Fund

Rothschild Asset Management (Ireland) Ltd

J. Rothschild International Assce plc

[illegible]

ISLE OF MAN
(FSA RECOGNISED)

[illegible]

ISLE OF MAN
(REGULATED)(**)

[illegible]

JERSEY
(FSA RECOGNISED)

[illegible]

Offshore Funds and Insurances

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

JERSEY (REGULATED)(**)

LUXEMBOURG (FSA RECOGNISED)

LUXEMBOURG (REGULATED)(**)

OFFSHORE INSURANCES

هكذا من الأصل

FT MANAGED FUNDS SERVICE

Offshore Insurances and Other Funds

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details

CMI Insurance Co Ltd - Contd.

[illegible]

Old Mutual International (Guernsey) Ltd

[illegible]

OTHER OFFSHORE FUNDS

[illegible]

Crystal Corporation N.V.

[illegible]

GT Global

[illegible]

Indocam Asia

[illegible]

Momentum Asset Mgmt

[illegible]

Schroder Investment Mgmt - Contd.

[illegible]

Dresdner Bank Investment Group

[illegible]

Global Asset Management - Contd.

[illegible]

Worldwide Limited				
NAV Jan 31	$109.78	—	—	
Xeryus Fund Management Ltd				
Xeryus Portfolio	$951.29	—	—	
Zuleaf Asset Management AG				
Europe Fd USD Feb 26	$126.984	—	—	
Europe Fd EUR Feb 26	Eur93.77	—	—	
Zweig-DiMenna International Limited				
NAV Feb 28	$26966	—	—	

● MANAGED FUNDS NOTES

Prices are in pence unless otherwise indicated and those designated $ with no prefix refer to U.S. dollars.
Yields % allow for all buying expenses.
Prices of certain older insurance linked plans subject to capital gains tax on sales.
FSA - Financial Services Authority.
(*) Funds not FSA recognised. The regulatory authorities for these funds are:
Bermuda - Bermuda Monetary Authority
Cayman Islands - Cayman Islands Monetary Authority
Guernsey - Financial Services Commission
Ireland - Central Bank of Ireland/Irish Department of Enterprise and Employment
Isle of Man - Financial Supervision Commission
Jersey - Financial Services Commission
Luxembourg - Institut Monétaire Luxembourgeois.
Initial charge - Charge made on sale of units.
Selling price - Bid or redemption price.
Buying price - Offer or issue price.
OEIC - Open Ended Investment Company.
Time - The time shown alongside the fund manager's name is the time of the fund's valuation point unless indicated by one of the following symbols:
(✦) 0001 to 1100 hours
(✦✦) 1101 to 1400 hours
(✦✦✦) 1401 to 1700 hours
(✦✦✦✦) 1701 to midnight
E Exit charge on sale of units.
G Manager's periodic charge deducted from capital.
H Historic pricing F - Forward pricing
h Distribution free of UK taxes.
p Periodic premium insurance plans.
s Single premium insurance.
n Designated as a UCITS (Undertakings for Collective Investment in Transferable Securities)
x Offered price includes all expenses except agent's commission.
y Previous day's price.
✠ Guernsey gross.
◆ Yield before Jersey tax.
† Ex subdivision. xd - Ex-dividend.
‡ Only available to charitable bodies
◆ Yield column shows annualised rates of NAV increase.

The fund prices published in this edition are also available at the Financial Times' web site, http://www.FT.com

LONDON SHARE SERVICE

ALCOHOLIC BEVERAGES

	Notes	Price	+ or −	52 week high	52 week low	Volume '000s	Yld Gr's	P/E
Allied Domecq	N	488½	+12½	646	385	5,882	5.2	12.8
Bulmer (HP)		286	—	389	279½	–	6.6	12.8
Burn Stewart		11½	−1	38½	7	159	–	–
Diageo		722½	+28	785	478	14,189	2.7	21.9
Glenmorangie A	†	720	—	900	625	–	2.5	19.6
B	†	827½	—	980	810	30	1.1	44.9
Highland		283½	—	325	225	14	4.8	11.2
5¾pc Cv Sb Bd		98½	—	100½	90½	–	5.9	–
Kirin Y		780½xd	+5½	814¼	457¼	–	0.9	55.8
Merrydown		28½	−½	54½	18½	22	–	φ
Seagram C$		[illegible]	−1⅛	£30⅛	[illegible]	–	1.0	–

BANKS, RETAIL

BREWERIES, PUBS & REST

BUILDING MATS. & MERCHANTS

CHEMICALS

CONSTRUCTION

CONSTRUCTION - Continued

DISTRIBUTORS

DIVERSIFIED INDUSTRIALS

ELECTRICITY

ELECTRONIC & ELECTRICAL EQPT

ENGINEERING

ENGINEERING - Continued

ENGINEERING, VEHICLES

EXTRACTIVE INDUSTRIES

FOOD PRODUCERS

FOOD PRODUCERS - Continued

GAS DISTRIBUTION

HEALTH CARE

HEALTH CARE - Continued

HOUSEHOLD GOODS & TEXT

INSURANCE

INSURANCE - Continued

INVESTMENT TRUSTS

INVESTMENT TRUSTS - Continued

INV TRUSTS SPLIT CAPITAL

LONDON SHARE SERVICE

OTHER INVESTMENT TRUSTS

The following investment trusts are not eligible for inclusion in the FTSE Actuaries Share Indices.

	Notes	Price	+ or -	52 week high	52 week low	Yld Gr's	NAV	Dis or Pm(-)
Approved by the Inland Revenue								
Aberdeen Emg Asia	♣	23	—	30½	13½	-	28.4	18.0
Atlantis Japan Gwth Fd		[illegible]	+5½	[illegible]	158	-	404.3	23.4
Warrants		9½	+½	38	1½	-	-	-
Baring Emrg Euro	♣	90¼	-1	118	55	-	114.4	21.1
Warrants		49½	-¼	67½	29¼	-	-	-
Brazilian IT	N	35½	—	61½	19¼	3.1	-	-
Warrants		8	—	30¼	7	-	-	-
Central Euro Gwth	♣	38¼	-¼	67½	36¼	-	47.5	19.5
Warrants		0½	—	11¼	0½	-	-	-
East German		12½	—	13	5½	-	21.1	39.6
Egypt Trust $		757¼	-1	875	567¼	2.1	-	-
F&C Latin American $♣		72	-1¼	128¼	46	-	93.7	23.1
Warrants		31	-¼	76	16¼	-	-	-
1st Russian Frontiers $♣		238½	-2½	1180	160	-	443.7	46.2
Warrants		87½	—	580	30	-	-	-
Warrants II		46½	—	525	15	-	-	-
Five Arrows Chile		105	-1¼	111½	89¼	-	138.0	23.8
Warrants		1	—	4½	0½	-	-	-
Uts Cv Uns Ln 2040		110¼	-1¼	140½	83¼	-	-	-
Govett Asian Smllr	♣	65	—	98	37	1.0	89.5	26.3
Hamboro Smllr Asian Dis	♣	25¼ xd	-¼	38½	15½	0.7	36.3	30.4
Warrants		3	—	7½	1½	-	-	-
Indonesia Fund		131¼	-¼	145	123¼	-	-	-
Warrants		8	—	8¼	7½	-	-	-
Israel Fund $		54	+¼	69¼	39½	-	60.4	10.7
Korea-Europe $	♣	192½	-¼	222½	95½	0.7	224.3	16.2

Net asset values supplied by Lipper as a guide only. See guide to London Share Service

INVESTMENT COMPANIES

LEISURE & HOTELS

LIFE ASSURANCE

MEDIA

MEDIA - Continued

OIL EXPLORATION & PRODUCTION

OIL, INTEGRATED

OTHER FINANCIAL

PAPER, PACKAGING & PRINTING

PHARMACEUTICALS

PROPERTY

PROPERTY - Continued

RETAILERS, FOOD

RETAILERS, GENERAL

SUPPORT SERVICES

SUPPORT SERVICES - Continued

TELECOMMUNICATIONS

TOBACCO

TRANSPORT

TRANSPORT - Continued

WATER

AMERICANS

CANADIANS

SOUTH AFRICANS

TRADED INDEX SECURITIES

AIM

Alternative Investment Market

The Alternative Investment Market, designed primarily for small companies, is regulated by the London Stock Exchange but has less demanding rules than the Official List.

AIM - Continued

Victory Corpn	♣	65	—	31½	6	-	-	-
Virtual Internet		164	—	341½	153	-	-	31.9
WML	♣	32½	—	66½	29½	-	-	-
Weather Action		48½	—	97½	48½	-	0.8	8.7
Weeks Group	♣	2	—	4½	2	-	-	-
West 175 Ents	♣	48½	—	97	42	-	-	12.1
West Bromwich Albion		£108	—	£149	£95	-	3.5	27.4
Western Select	♣	8¼	—	13	7½	-	-	♦
Westmoreland Energy	♣	17½	—	300	17½	-	8.6	2.9
Willington		78	—	88	70	-	-	40.7
Winchester		60½	—	88	60½	-	-	-
World Telecom	♣	80	—	205	65	-	-	-
XYZ		140	+½	162½	111½	-	-	-
Xavier Computer		10	—	18	6	-	-	15.2
Yeoman		51½	—	84	51½	-	-	♦

GUIDE TO LONDON SHARE SERVICE

Prices and trading volumes for the London Share Service are delivered by Financial Times Information.

Company classifications are based on those used for the FTSE Actuaries Share Indices.

Closing mid-prices are shown in pence unless otherwise stated. For FTSE 100 index constituents and reserves contained in the Trading Volume table on the LSE page, last trade prices at or prior to 4:30pm market close are shown, as these shares are now traded on the Stock Exchange Electronic Trading System ("SETS"). Highs and lows are based on intra-day mid-price/last trades over a rolling 52 week period.

Trading Volumes are end of day accumulated totals. Dashes indicate that either no trade has taken place during the day or the data is not available for those particular securities. Volumes shown for foreign securities are based on London trading.

Where stocks are denominated in currencies other than sterling, this is indicated after the name. Prices shown for some of these foreign securities are converted into sterling from latest available local Stock Exchange prices.

Symbols referring to dividend status appear in the notes column daily as a guide to yields and P/E ratios. Dividends and Dividend covers are published on Monday.

Earnings used in calculations are based on IIMR 'Headline Earnings' formula.

Price/earnings ratios are based on latest annual reports and accounts and, where possible, are updated on interim figures.

Yields are based on mid-prices, are gross, adjusted for a dividend tax credit of 20 per cent (except where payment is due after 5/4/99 when no tax credit will be applied) and allow for the value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm -) to the current closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1570 a year for each security shown, subject to the Editor's discretion.

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FT Cityline

Up-to-the-second share prices are available by telephone from the FT Cityline service. See Monday's share price pages for details. Calls are charged at 60p per minute at all times.

An international service is available for callers outside the UK, annual subscription £250 stg. Please consult your financial adviser and verify financial pricing information obtained via FT Cityline before making any investment decision.

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Call 0171 873 4378 for more information on FT Cityline.

For Retail Price Index details call 0888 843 8085

The FT web site

London share prices are available throughout the trading day with a 20 minute delay from our web site, http://www.ft.com, which also has the closing share prices printed on these pages.

LONDON STOCK EXCHANGE

US bond market weakness unsettles UK equities

MARKET REPORT

By Steve Thompson, UK Stock Market Editor

A fresh bout of weakness in the US bond market put paid to a relatively robust performance by UK equities yesterday.

Earlier, bolstered by another batch of mostly well-received company results, London had shrugged off the disappointment of domestic interest rates being left unchanged.

The Bank of England's monetary policy committee decided to leave rates on hold for the first time in six months. The previous five monthly meetings saw rates cut by a total of 200 basis points.

Although a majority of market observers had expected the committee to leave rates on hold so close to Tuesday's Budget, there were still plenty of optimists in the market who were prepared to gamble on another reduction.

Dealers said the market's positive showing, both before and after the mpc news and before the late sell-off, was a clear demonstration by the bulls that the recent bout of weakness, during which it fell almost 250 points or around 4 per cent in three days, had been overdone.

But they also warned that London faced some daunting hurdles over the next few days – the US non-farm payroll report for February, scheduled for Friday, and next Tuesday's UK Budget.

"The US employment report could be a key pointer to the next move in US rates, which will ultimately determine the course of Wall Street," said one marketmaker.

If US job creation comes in much higher than the 250,000 consensus forecast, it will be seen as increasing the chances of a US interest rate rise after the next meeting of the US Federal Reserve's open market committee on March 30.

The FTSE 100 was supported for much of the day by exceptionally good earnings reports from GKN, one of the UK's leading engineering groups, and relief over the extent of the Asian bad debt provisions made by Schroders, the leading independent UK merchant bank.

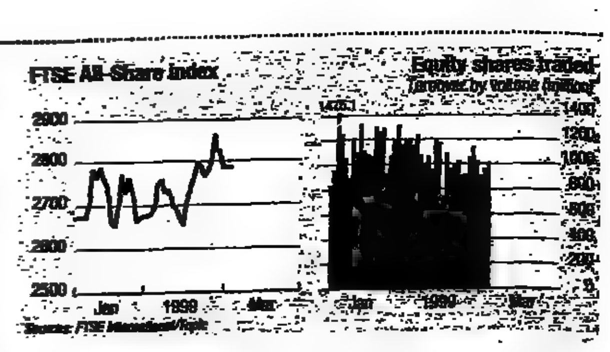
After withstanding an early small bout of selling, the FTSE 100 made rapid progress in mid-session, posting a 54.7 gain at 6,116.0, before dipping away late in the day to finish a net 13.0 lower at 6,048.3.

The rather erratic nature of trading in the leaders did not filter through to the second and third-string stocks, which finished the day not far short of their best levels.

The FTSE 250 closed 9.6 firmer at 5,286.9, having touched a session high of 5,292.4, driven by exceptionally strong performances in building stocks, such as John Laing and Hewden Stuart, plus a sprinkling of good gains in stocks such as Jardine Lloyd Thompson, the insurance broker, and British-Borneo, the oil exploration group.

The FTSE SmallCap, meanwhile, settled 6.2 better at 2,282.5, after 2,283.2. Wainhomes, the housebuilder, featured in the small stocks after news of the agreed management buyout.

Turnover in the equity market topped the 1bn shares mark for the first time in three sessions, eventually reaching 1.01bn shares. FTSE 100 stocks accounted for just over 50 per cent of the total.



Indices and ratios

FTSE 100	6048.3	-13.0	FT 30	3728.3	+14.0
FTSE 250	5286.9	+9.6	FTSE Non Fins p/e	23.61	23.82
FTSE 350	2876.0	-4.4	FTSE100 Fut Mar	6043.0	-24.0
FTSE All-Share	2781.69	-3.08	10 yr Gilt yield	4.85	4.76
FTSE All-Share yield	2.76	2.81	Long gilt/equity yld ratio	1.76	1.74

Best performing sectors		Worst performing sectors	
1 Engineering Vehicles	+4.5	1 Retailers, Food	-2.8
2 Electronic & Elect Equip	+3.8	2 Gas Distribution	-2.6
3 Alcoholic Beverages	+3.7	3 Pharmaceuticals	-1.8
4 Insurance	+2.9	4 Household Goods & Texts	-1.6
5 Construction	+2.0	5 Tobacco	-1.4

Volatile day for Rentokil

COMPANIES REPORT

By Martin Brice, Peter John and Joel Kibazo

Rentokil Initial endured a roller-coaster day that included a rogue trade and an influential broker mentioning the prospect of the retirement of Sir Clive Thompson, the chief executive who made the company one of the best Footsie performers for more than a decade.

The rogue trade involved one broker taking out all the offers on the screen at one fell swoop, and pushed the shares from 395p to 525p. It was later cancelled by agreement with the Stock Exchange.

The longer-term worry, that the company would need a substantial acquisition to achieve its self-imposed target of 20 per cent earnings growth in the years running up to Sir Clive's retirement next year or in 2001, was raised by Geoff Allum at Henderson Crosthwaite.

Under Sir Clive, Rentokil has become one of the stock market's darlings, and achieved 20 per cent earnings growth every year for 17 years – until this week's results.

Mr Allum contrasted the high earnings growth target with low sales growth, and said this meant Rentokil would find it hard to make disposals without suffering earnings dilution.

He suggested that clients switch from Rentokil to Hays, which "operates in faster-growing markets, has a younger management team now in place, and is under half the size of Rentokil".

Rentokil closed down 4½ at 396½p, amid 23m dealt, while Hays rose 21½ to 626½p.

Reuters Group moved forward strongly in early trading as news of a possible alliance with two US exchanges combined with growing broker support.

Collins Stewart recommended the stock ahead of investor presentations on March 9 in London and March 17 in New York.

Reuters said on Tuesday it had been holding talks at a senior level with Nasdaq and the New York Stock Exchange about a number of specific subjects. The shares were up 36 at best, but the weak global share environment dragged the internationally traded stock down to a close of 10½ up at 873p.

Carlton Communications dipped 8 to 620p as Merrill Lynch switched its stance on the stock to "accumulate" from "buy" on valuation grounds.

The bears were out in force in Marks and Spencer sending the shares tumbling on renewed worries about the weakness in the UK clothing sector.

Recent buyers of the stock were hoping the worst was over for the UK's biggest clothes retailer, which gave a profits warning this year. However, a CBI distributive trade survey pointed to the continued weakness in the market while poor figures from two of the group's suppliers and a downgrade by rating agency Moody's all combined to trigger a sell-off in the stock yesterday. The shares fell 14¾ to 380½p after trade of 16m.

Clothing designer and manufacturer William Baird, one of M&S's biggest suppliers, reported a decline in 1998 profits and warned the first half of the year would be hit by the UK economic slowdown. Dawson International also reported a decline in profits.

There was more bad news for Marks when Moody's said it had lowered the senior debt rating of the company's guaranteed subsidiaries to Aa1 from Aaa and was maintaining its negative outlook.

This week, WestLB Panmure advised clients to sell the stock, saying a fair value price for the shares was no more than 300p.

William Baird shares eased 4 to 105p, while those of Dawson International surrendered 2¼ to 13¼p.

In the rest of the retailers, profit-taking in Arcadia Group left the shares trailing 18 or nearly 8 per cent at 213p.

Energis strong

In telecoms, Energis, the subject of strong selling recently, was in demand yesterday, the shares jumping 120 to £15.80.

The group confirmed it is in discussions with Viridian Group to form a joint venture to build a network and provide services to Northern Ireland business customers.

Henderson Crosthwaite is a buyer of the shares and raised its price target to £18. The broker said: "The question is whether investors can expect similar outperformance over the next 12 months from the current share price. We believe the flow of corporate activity from Energis, coupled with consistent outperformance over analysts' trading forecasts, justify a further re-rating of the stock."

Viridian Group shares improved 24½ to 733p with WestLB Panmure said to favour the stock.

Securicor fell 5¼ to 579p, on reports of disappointing subscription figures for February at mobile phones operator Cellnet in which it has a 40 per cent stake. British Telecommunications holds the outstanding 60 per cent in Cellnet and its shares eased 8 to £10.65.

BOC jumped 24¼ to 858p as Credit Lyonnais Securities issued a positive note on the industrial gases group.

The broker reiterated its "buy" stance and argued that the shares were unfairly cheap in comparison with continental peers such as Air Liquide of France and Aga of Sweden.

Reckitt & Colman lost 14½ at 800p in front of results next week.

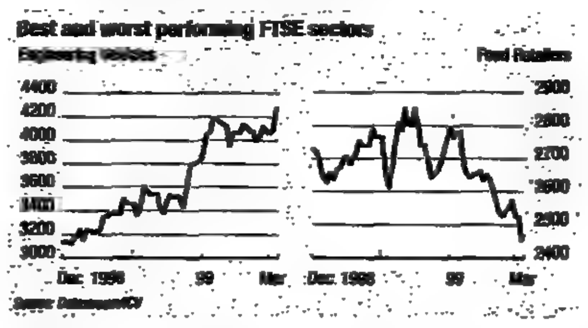
Severn Trent rose 7 to 903p in the belief that recent falls had been overdone. Other stocks in the sector also trickled higher. United Utilities was up 1¼ at 780p and Thames 7 better at £10.22. Water stocks had been driven down on Monday after Michael Meacher, UK environment minister, announced plans that would cost the industry around £6bn to implement.

Britannic fell 97 to £10.65 following results which disappointed the market.

Although the profits were up almost 9 per cent, the embedded value of the life and pensions business was down at £407m from £438m previously.

CGU moved up 27½ to 955½ with dealers citing a recommendation from ABN-Amro. Schroders advanced 26 to £12.90 in response to well-received figures.

Exposure to a falling market saw fund manager Amvescap slip 10¾ to 604½p. However, there was support from CSFB, which says the shares are worth 650p on a discounted cash flow basis and 700p within 12 months.



FT 30 INDEX

	Mar 3	Mar 2	Mar 1	Feb 26	Feb 25	Yr ago	*High	*Low
FT 30	3728.3	3714.3	3704.3	3760.3	3771.8	3560.1	4004.9	2790.6
Ord. div. yield	2.80	2.81	2.82	2.77	2.75	3.04	4.22	2.72
P/E ratio net	22.93	22.55	22.46	22.89	23.05	[illegible]	25.41	15.80
P/E ratio nil	22.57	22.49	22.40	22.83	[illegible]	23.14	25.19	15.71

FT 30 since compilation: high 4004.9 [illegible]; low 49.4 [illegible]. Base Date: 1/7/35.

FT 30 hourly changes

9	10	11	12	13	14	15	16	High	Low
3714.3	3723.7	3738.7	3743.2	3737.7	3749.4	3746.9	3729.1	[illegible]	3709.7

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STOCK MARKET TRADING DATA

	Mar 3	Mar 2	Mar 1	Feb 26	Feb 25	Yr ago
SEAQ bargains	75,016	74,655	80,169	83,237	86,811	n/a
Equity turnover (£m)†	-	3859.7	3278.1	4248.0	3983.2	n/a
Equity bargains†	-	63,765	67,671	69,551	64,687	n/a
Shares traded (mil)†	-	987.3	810.9	981.8	887.3	n/a
Total market bargains‡	-	75,320	81,132	87,152	81,308	-
Total turnover (£m)‡	-	4941.6	4283.2	[illegible]	5228.8	-
Total shrs traded (mil)‡	1009.4*	1219.5	1002.6	1223.9	1141.8	-
Tradepoint turnover (£m)	20.9	31.6	16.5	26.6	35.0	51.5
Tradepoint shrs traded(m)	9.8	14.0	7.2	10.8	13.1	16.1

†Excluding intra-market and overseas turnover but including [illegible] turnover. *UK only total at 6pm. ‡ UK plus intra-market turnover.

London market data

Rises and falls*		52 Week highs and lows		LIFFE Equity options	
Total Rises	842	Total Highs	44	Total contracts	31,588
Total Falls	753	Total Lows	50	Calls	[illegible]
Same	1,489			Puts	17,624

Mar 3 *Data based on Equity shares listed on the London Share Service.

MONTHLY AVERAGES OF STOCK INDICES

	February	January	December	November
FTSE Actuaries Indices				
FTSE 100	6010.8	5975.8	5686.3	5595.6
FTSE 250	5192.5	4904.9	4761.9	4865.0
FTSE 350	2852.9	2814.0	2686.2	2661.4
FTSE Non-Financial	2815.86	2778.42	2646.90	2630.55
FTSE Financial Group	5263.96	5145.56	4948.99	4877.75
FTSE All-Share	2757.56	2714.51	2591.98	2571.19
FTSE Eurotop 100	2771.06	2795.78	2617.70	2565.69
FTSE Eurotop 300	1206.00	1212.06	1133.97	1110.10
FT/S&P-A World Index	306.37	310.28	296.88	288.08
FTSE Indices				
FT Govt Securities	115.18	116.43	114.95	111.59
FT Fixed Interest	157.33	157.70	156.71	151.17
FT 30	3650.0	3633.1	3431.8	3383.8
FTSE Gold Mines	928.37	978.40	960.02	1109.02
SEAQ Bargains (5.00pm)	80,463	76,998	83,997	63,865

	Highest close Feb	Lowest close Feb
FTSE 100	6307.8 24th	5770.2 10th
FTSE 250	5245.3 26th	5121.8 1st
FTSE 350	2974.4 24th	2753.5 10th
FTSE All-Share	2871.61 24th	2665.16 10th
FT 30	3793.1 24th	3540.1 10th

FUTURES AND OPTIONS

FTSE 100 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	6082.0	6043.0	-18.0	6122.0	6034.0	29938	[illegible]
Jun	6079.0	6081.5	-18.0	6139.0	6076.0	4184	[illegible]
Sep	6150.0	6127.0	-18.0	6187.0	6124.0	[illegible]	[illegible]

FTSE 250 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	5263.0	5273.0	+10.0	5263.0	5263.0	40	[illegible]
Jun	5272.0	5282.0	+10.0	5272.0	5272.0	40	[illegible]

FTSE 100 INDEX OPTION (LIFFE) (*6048) £10 per full index point

[illegible]

EURO STYLE FTSE 100 INDEX OPTION (LIFFE) £10 per full index point

[illegible]

LONDON RECENT ISSUES: EQUITIES

[illegible]

RIGHTS OFFERS

Issue price	Amount paid up	Latest Renunc. date	1998/99 High	Low	Stock	Closing price p	+/-
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	Brascan	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	Peptide Therapies	[illegible]	[illegible]

FTSE GOLD MINES INDEX

[illegible]

FTSE Actuaries Share Indices — The UK Series

Produced in conjunction with the Faculty and Institute of Actuaries

[illegible]

FTSE Actuaries Industry Sectors

[illegible]

Hourly movements

[illegible]

TRADING VOLUME

Major Stocks yesterday.

[illegible]

FTSE INTERNATIONAL

Highs & Lows shown on a 52 week basis

WORLD STOCK MARKETS

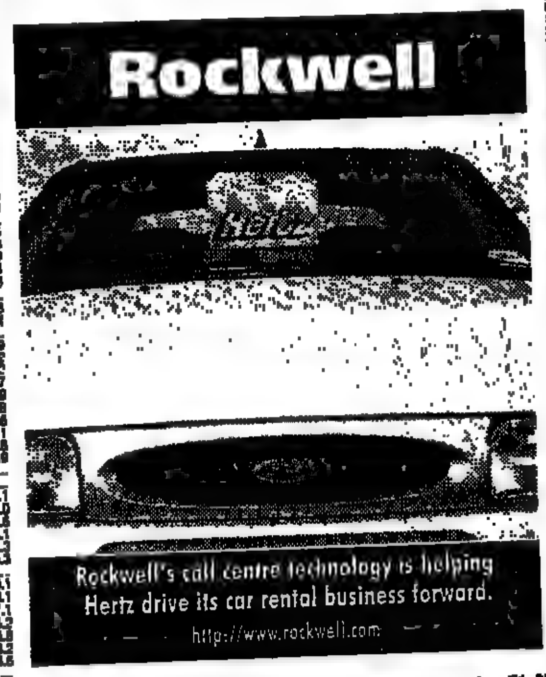
EUROPE (EMU) Prices in €

EUROPE (NON-EMU)

PACIFIC

AFRICA

AMERICAS



Emerging markets:

IFC investable indices

FT/S&P ACTUARIES WORLD INDICES

The FT/S&P Actuaries World Indices are owned by FTSE International Limited, Goldman, Sachs & Co. and Standard & Poor's. The Indices are compiled by FTSE International and Standard & Poor's in conjunction with the Faculty of Actuaries and the Institute of Actuaries.

NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock	TUESDAY MARCH 2 1999 US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	Euro Index	Local Currency Index	Local % chg on day	Gross Div. Yield	MONDAY MARCH 1 1999 US Dollar Index	Pound Sterling Index	Yen Index	Euro Index	Local Currency Index	DOLLAR INDEX 52 week High	52 week Low	Year ago (approx)
Australia (75)	205.27	-0.4	188.35	156.08	216.31	219.87	-0.8	3.36	206.11	190.06	155.59	217.07	221.64	219.96	163.86	213.67
Austria (21)	178.96	-0.8	164.21	136.07	166.40	166.40	-0.7	2.00	180.32	166.28	136.12	167.57	167.57	253.73	165.27	208.11
Belgium (22)	376.93	-0.1	345.86	286.59	343.14	343.14	0.0	1.98	377.24	347.88	284.78	343.23	343.23	446.95	279.30	286.08
Brazil (29)	95.56	-5.2	87.68	72.68	100.69	378.16	-0.6	6.14	100.85	93.00	76.13	106.22	380.57	269.34	89.32	242.94
Canada (113)	195.09	-1.4	179.01	148.33	205.57	214.87	-1.4	1.85	197.92	182.51	149.41	208.44	217.85	248.78	159.94	227.22
Denmark (34)	438.10	-0.2	401.98	333.10	461.84	405.32	-0.2	1.76	439.20	405.01	331.55	462.55	408.16	537.33	420.12	452.93
Finland (29)	803.95	1.4	554.17	459.21	689.63	689.63	1.5	1.63	595.51	549.16	449.55	679.62	679.62	661.25	338.49	358.99
France (74)	308.54	0.4	283.10	234.59	290.52	290.52	0.5	2.12	307.15	283.24	231.87	289.06	289.06	354.45	253.86	268.73
Germany (55)	248.29	0.3	227.82	188.78	231.03	231.03	0.3	1.68	247.64	228.36	186.94	230.30	230.30	325.81	226.35	254.43
Greece (36)	398.30	-2.3	365.47	302.84	419.71	840.84	-2.2	1.02	407.83	376.09	307.87	429.52	860.07	429.65	211.47	–
Hong Kong, China (66)	286.16	-0.9	262.57	217.58	301.54	284.65	-0.9	4.28	288.72	266.25	217.96	304.08	287.18	382.52	196.64	358.07
Indonesia (24)	48.17	0.2	44.20	36.63	50.76	361.99	0.5	1.17	48.09	44.34	36.30	50.64	260.63	84.52	19.04	53.29
Ireland (14)	529.09	-1.1	485.48	402.29	537.29	537.29	-1.1	1.87	535.24	493.58	404.05	543.24	543.24	605.85	396.15	493.18
Italy (53)	163.43	-0.3	149.96	124.26	216.27	216.27	-0.3	1.50	163.94	151.18	123.76	216.82	216.82	192.64	128.68	140.13
Japan (445)	94.53	-2.3	86.73	71.87	99.61	71.87	-1.6	1.04	96.71	89.18	73.01	101.85	73.01	107.62	76.83	107.62
Mexico (29)	1212.50	-1.3	1112.55	921.90	1277.57	13201.14	-0.8	1.94	1228.60	1132.97	927.47	1293.93	13309.30	1733.73	787.15	1618.76
Netherlands (26)	478.28	-0.2	438.86	363.66	440.22	440.22	-0.2	2.18	479.36	442.05	361.87	440.97	440.97	562.73	394.92	467.39
New Zealand (18)	63.34	0.4	58.12	48.16	66.74	63.67	-0.3	4.43	63.12	58.20	47.65	66.47	63.88	77.84	45.68	77.06
Norway (37)	222.17	0.4	203.85	168.92	234.11	238.78	0.3	2.09	221.27	204.04	167.03	233.03	237.99	357.71	181.86	310.92
Philippines (22)	86.65	0.1	79.51	65.89	91.31	168.42	0.2	0.97	86.60	79.86	65.37	91.20	168.09	106.98	42.48	98.24
Portugal (18)	241.58	-0.9	221.67	183.68	303.36	303.36	-0.9	1.08	243.81	224.83	184.05	305.99	305.99	299.39	194.13	–
Singapore (40)	204.14	-0.9	187.31	155.22	215.11	163.08	-0.4	1.68	205.93	189.90	155.46	216.88	163.68	246.74	102.45	228.99
South Africa (35)	191.34	0.0	175.57	145.46	201.63	261.18	0.5	3.64	191.29	176.40	144.40	201.46	259.95	346.20	151.55	287.24
Spain (30)	373.24	-0.3	342.47	283.79	430.52	430.52	-0.2	1.61	374.23	345.10	282.50	431.43	431.43	435.19	290.81	339.76
Sweden (43)	509.93	0.8	467.90	387.72	537.34	621.54	0.8	1.99	508.12	466.73	382.07	533.04	616.45	628.19	379.18	531.31
Switzerland (30)	384.63	-0.4	352.92	292.45	405.30	347.62	-0.3	1.23	386.35	356.28	291.66	406.90	348.70	441.65	307.73	392.97
Thailand (31)	21.66	-0.4	19.88	16.47	22.83	31.56	0.2	2.86	21.76	20.07	16.43	22.92	31.50	33.84	8.15	33.35
United Kingdom (201)	381.12	0.6	349.70	289.78	401.60	349.70	0.1	2.75	378.97	349.47	286.08	399.12	349.47	401.84	307.96	374.18
USA (612)	506.17	-0.8	464.45	384.86	533.38	506.17	-0.8	1.30	510.23	470.51	385.17	537.36	510.23	527.72	390.12	427.63
Americas (783)	448.46	-0.8	411.49	340.98	472.56	381.04	-0.8	1.34	452.23	417.03	341.39	476.28	384.17	467.90	347.59	387.52
Europe (723)	343.91	0.2	315.56	261.48	362.39	327.75	0.1	2.09	343.21	316.50	259.09	361.46	327.51	386.24	282.63	328.63
Eurobloc (342)	97.26	0.1	89.24	73.95	97.95	97.95	0.1	1.84	97.18	89.61	73.36	97.81	97.81	113.92	81.53	–
Nordic (143)	487.33	0.8	447.15	370.53	513.52	512.05	0.8	1.86	483.65	446.01	365.11	509.37	507.92	555.97	360.04	462.59
Pacific Basin (721)	102.56	-1.9	94.11	77.98	108.08	80.40	-1.4	1.57	104.56	96.42	78.93	110.12	81.53	117.89	82.88	117.89
Euro-Pacific (1444)	202.90	-0.4	186.17	154.27	213.81	173.32	-0.4	1.94	203.74	187.88	153.80	214.57	173.92	221.79	168.00	205.78
North America (725)	485.01	-0.8	445.02	368.77	511.08	486.03	-0.8	1.32	488.99	450.93	369.14	515.00	490.01	506.43	374.92	414.83
Europe Ex. UK (522)	314.61	0.0	288.68	239.21	331.52	307.38	0.1	1.75	314.58	290.09	237.47	331.30	307.14	366.32	260.93	296.48
Europe Ex. Eurobloc (381)	96.07	0.3	88.15	73.04	101.23	98.21	0.0	2.35	95.76	88.31	72.29	100.86	98.21	103.93	77.40	–
Europe Ex. UK Ex. Eurobloc (180)	93.86	-0.2	86.12	71.36	98.90	94.38	-0.1	1.46	94.07	86.75	71.02	99.08	94.49	109.21	75.16	–
Pacific Ex. Japan (276)	178.48	-0.6	163.76	135.70	188.07	184.30	-0.7	3.55	179.62	165.55	135.52	189.07	185.67	216.04	128.26	212.42
World Ex. Eurobloc (1920)	103.56	-0.8	95.02	78.74	109.12	103.23	-0.7	1.57	104.37	96.25	78.79	109.92	104.01	108.05	83.09	–
World Ex. US (1650)	202.11	-0.5	185.45	153.67	212.98	178.09	-0.4	1.97	203.08	187.28	153.31	213.68	178.78	221.91	165.95	208.94
World Ex. UK (2061)	292.35	-0.8	268.25	222.28	308.07	265.35	-0.7	1.48	294.68	271.75	222.46	310.35	267.19	311.48	236.11	270.35
World Ex. Japan (1817)	402.08	-0.5	368.94	305.72	423.69	398.09	-0.5	1.67	403.53	372.54	304.97	425.47	400.11	427.99	320.58	365.01
The World Index (2262)	299.98	-0.6	275.26	228.09	316.11	273.05	-0.6	1.61	301.94	278.44	227.94	318.00	274.72	318.51	242.36	279.13

Latest prices were unavailable for this edition.

4 pm close March 3

NEW YORK STOCK EXCHANGE PRICES

- X - Y - Z -

1998/99 High	Low	Stock	Div.	Yld. %	P/E	Vol 100s	High	Low	Close Quote	Chng Prev. Close
63	20¼	Xerox x	0.80	1.5	21	24158	55¾	53½	54⅞	-1⅛
80⅞	58	XL Cap	1.76	2.9	9	2545	61⅞	59¾	61	-⅝
66	37½	Xtra Corp			9	468	39	38⅝	38¾	
31	22½	Yankee Egy	1.28	5.6	22	70	24¾	24½	24¾	
52¾	27½	York Int	0.48	1.3	10	7244	36	36¼	38½	
24	6⅛	Zapata			3	149	8	9	9¼	
50	31	Zeneca	0.80	2.0	31	1467	40½	39¾	40⅛	
30½	20	Zenon Nat	1.00	4.0	19	822	25	24½	25	
8	5	Zenix Inc	0.67	11.2		140	6	5	6	
14	8⅞	ZweigFd	1.08	10.5		482	10	10	10¼	
9	8	Zweig Tot	0.84	10.2		1113	8	8¼	8¼	

Price data supplied by Financial Times Information.

Yearly highs and lows for NYSE reflect the period from Jan 1 1998. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration. Volume figures are unofficial.
d-new yearly low. P/E price-earnings ratio. vol- volume. u-new yearly high. x-ex-dividend or ex-rights. yld-yield. z-sales in full.
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GLOBAL EQUITY MARKETS

US INDICES

Dow Jones	Mar 2	Mar 1	Feb 26	1998/99 High	1998/99 Low	Since compilation High	Since compilation Low
Industrials	9297.61	9324.78	9306.58	9643.32 (8/1/99)	7539.07 (31/8/98)	9643.32 (8/1/99)	41.22 (8/7/32)
Home Bonds	104.30	104.41	104.48	107.17 (9/12/98)	104.13 (25/2/99)	107.17 (9/12/98)	54.99 (1/10/81)
Transport	3279.06	3225.86	3207.43	3686.02 (16/4/98)	2345.00 (8/10/98)	3686.02 (16/4/98)	13.23 (8/7/32)
Utilities	290.72	291.02	293.87	328.51 (8/10/98)	262.66 (8/1/98)	328.51 (8/10/98)	16.53 (8/7/32)

DJ Ind. Day's high 9494.57(9419.32) Low 9216.88 (9167.78) (Theoretical) Day's high 9421.22(9355.21) Low 9288.00 (9222.63) (Actual)

Standard and Poors	Mar 2	Mar 1	Feb 26	1998/99 High	1998/99 Low	Since compilation High	Since compilation Low
Composite‡	1225.50	1236.16	1238.33	1278.64 (29/1/99)	927.69 (8/1/98)	1278.64 (29/1/99)	4.40 (1/6/32)
Industrials♥	1468.86	1482.31	1488.10	1551.65 (29/1/99)	1077.40 (8/1/98)	1551.65 (29/1/99)	3.52 (30/6/32)
Financial♥	135.25	135.65	134.94	147.69 (14/7/98)	95.80 (8/10/98)	147.69 (14/7/98)	7.13 (4/9/74)
Others							
NYSE Comp.	582.94	585.43	586.46	611.06 (8/1/99)	477.20 (8/10/98)	611.06 (8/1/99)	4.84 (25/4/42)
Amex Comp	699.21	698.29	698.29	753.67 (22/4/98)	583.75 (8/10/98)	753.67 (22/4/98)	524.30 (16/7/96)
NASDAQ Cmp	2259.03	2295.18	2288.03	2510.09 (1/2/99)	1419.12 (8/10/98)	2510.09 (1/2/99)	54.87 (3/10/74)
Russell 2000	394.43	394.39	392.28	491.41 (21/4/98)	310.28 (8/10/98)	491.41 (21/4/98)	123.36 (7/12/93)

■ RATIOS

	Feb 26	Feb 19	Feb 12	Year ago
Dow Jones Ind. Div. Yield	1.67	1.66	1.66	1.03
	Feb 24	Feb 17	Feb 10	Year ago
S & P Ind. Div. yield	1.14	1.19	1.15	1.30
S & P Ind. P/E ratio	38.67	37.72	38.00	27.54

US DATA

■ MARKET ACTIVITY

● Volume (million)

	Mar 2	Mar 1	Feb 26
NYSE	753.670	899.570	784.630
Amex	24.029	18.469	24.047
NASDAQ	898.081	775.001	904.833

NYSE	Mar 2	Mar 1	Feb 26
Issues Traded	3,524	3,542	3,520
Rises	1,410	1,399	1,445
Falls	1,557	1,571	1,485
Unchanged	557	554	580
New Highs	36	21	20
New Lows	85	107	104

■ NYSE TRADING ACTIVITY Volume : 753,670,000

■ ACTIVE STOCKS

Tuesday	Stocks traded	Close price	Day's change
Compaq	23,717,600	31⅛	-1¾
AmOnLine	13,159,600	85¾	-2⅞
AT&T	9,875,200	81⅞	+¼
Citgrp	9,213,700	58⅞	-2⅛
HewPac	6,824,600	68¾	+2¾
LucentTch	5,949,600	99⅞	-2⅞
MicrnTech	5,774,100	54¾	-3¾
Gillte	5,148,000	57⅛	+2⅞
WellsF	5,087,400	37½	+⅛
Txinst	4,714,300	86¼	-5⅞

■ BIGGEST MOVERS

Tuesday	Close price	Day's change	Day's chge %
Ups			
[illegible]	37	+3½	+10.4
BJ'sWh	47⅞	+4	+9.2
BaxADR	15	+1⅛	+8.6
TysRUs	15¾	+1⅛	+7.7
Downs			
HayLem	23	-3⅛	-12.0
Micrn	15⅞	-1½	-8.6
Pilgrims P	16⅞	-1½	-8.1
Inco	11⅞	-⅞	-7.0

■ NASDAQ TRADING ACTIVITY Volume :898,081,000

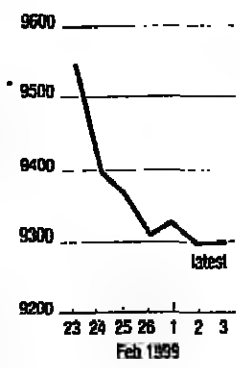
■ ACTIVE STOCKS

Tuesday	Stocks traded	Close price	Day's change
Intel	33,862,100	109⅞	-7¼
3Com	31,442,000	27	-3⅞
XylanCp	29,623,800	35¾	+8⅞
DellComp	22,329,100	78⅛	-2½
CiscoSys	15,105,900	95⅞	-3¾
Micsft	14,513,300	148⅛	-3⅛
AppleCo	13,267,500	57⅛	+⅛
TCI GpA	12,483,200	62⅛	+⅛
MCIWorn	11,622,100	80¾	-⅛
Oracle	10,435,500	35⅛	-1⅞

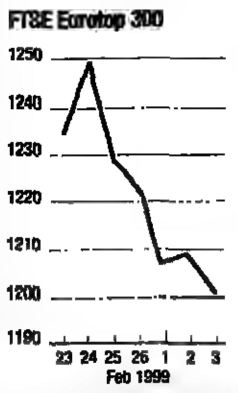
■ BIGGEST MOVERS

Tuesday	Close price	Day's change	Day's chge %
Ups			
XylanCp	35¾	+8⅞	+32.7
VISX	79¾	+19¾	+31.8
Intervoic	13½	+2⅛	+18.0
MTG ADR	86	+11	+14.7
Downs			
MemEl	11⅞	-2¾	-18.2
Alpha Ind	14¾	-3⅛	-18.0
STAR Tel	10⅞	-1⅛	-12.6
3Com	27	-3⅞	-12.0

Dow Jones



FTSE Eurotop 300



JAPAN

FRANCE

GERMANY

UK

INDEX FUTURES

■ S&P 500	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Mar	1228.00	1230.00	+0.50	1233.20	1226.50	132,192	330,425
Jun	1242.00	1241.50	+0.10	1244.50	1241.00	20,814	71,105
■ Nikkei 225							
Mar	13930.0	14160.0	+250.0	14180.0	13910.0	33,335	156,204
Jun	13850.0	14120.0	+310.0	14120.0	13830.0	7,885	79,579

■ CAC-40	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
Mar	4064.0	4001.0	-44.0	4098.0	4010.5	51,280	145,435
Jun	4050.0	3962.0	-44.0	4050.5	4050.0	2,660	2,666
■ DAX							
Mar	4795.0	4665.0	-135.0	4818.0	4657.0	52,110	227,614
Jun	4806.5	4689.0	-140.0	4840.0	4683.5	5,651	113,858

■ OMX	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
Mar	718.00	719.00	-5.00	726.50	718.00	10,125	123,027
Apr	723.00	723.75	+2.25	724.00	721.00	106	419
■ EUREX							
Mar	6962.0	6980.0	-	7032.0	6940.0	20,193	135,572
Jun	6959.0	6924.0	+4.0	6967.0	6919.0	2,087	0,657

Open interest figures for previous day.

WORLD MARKETS AT A GLANCE

THE NASDAQ-AMEX MARKET GROUP

4 pm close March 3

AMEX

4 pm close March 3

EASDAQ

STOCK MARKETS

European bourses fall before ECB meeting

WORLD OVERVIEW

The run-up to today's meeting of the European Central Bank proved uncomfortable for euro-zone stock markets, which pushed steadily lower in spite of broad neutrality in Asia and on Wall Street in early trading, *writes Jeffrey Brown.*

Frankfurt led the way down, with the benchmark Xetra Dax index sliding 2.7 per cent amid growing investor concern for the escalating political rows in Germany over monetary policy and corporate tax reform.

Investors mostly took their cue from German bonds, where yields edged up to their highest level this year at 4.125 per cent for 10 years. The knock to equity sentiment was widespread. Madrid lost 1.5 per cent and Paris and Amsterdam more than 1 per cent.

The Bank of England, by holding UK rates, did its bit to soothe fevered brows and most observers were confident the ECB would follow suit today.

However, in advance of tomorrow's US non-farm payrolls, where the broker consensus for February data shows a fairly wide range of possible returns, investor confidence was put severely to the test.

The day's mixed run of results statements from core companies like insurer Aegon and international brewing brand Heineken were little help to sentiment in Europe.

In the UK, motor components leader GKN surprised with a return at the top of the range, but elsewhere there was scant aid for the auto sector. Concern for shrinking operating margins following downbeat trading reports from Volkswagen and Renault has, for the moment, taken over from sector restructuring hopes as the main guide to direction.

Hong Kong was the main focus in Asia, surging 1.7 per cent before the budget speech but ending little changed in spite of what was broadly seen as a potentially exciting speech by financial secretary Donald Tsang.

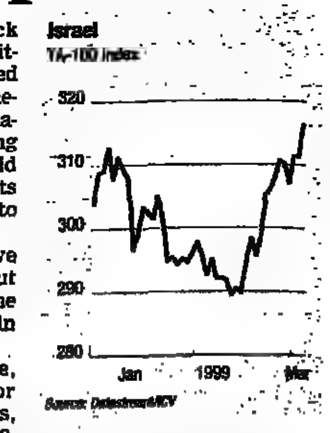
The forecast of 0.5 per cent gross domestic product growth this year is significantly ahead of broker predictions and coming just ahead of next month's land sales – the first since last summer – could suggest that the economy is in better shape than hitherto suspected.

"Land prices are the key after the 60 per cent slide since the peaks of late 1997. If next month's sales can hint at a turning point then consumer spending could also be in for a recovery," said Justin Gibbs, Asia strategist at Paribas.

This would be good news for hard-pressed Hong Kong equities and could boost luxury goods-linked stocks like French leader LVMH.

EMERGING MARKET FOCUS

Tel Aviv growth defies upheavals



Source: Datastream/ICV

The Tel Aviv Stock Exchange has defied the critics. With elections scheduled for May, a stalemate in Israeli-Palestinian peace negotiations and renewed fighting in south Lebanon, one could have assumed the markets would have been jumpy to say the least.

However, not only have the markets been stable, but over the past two weeks the index has risen sharply in growing volumes.

Yesterday, for example, the TA-25, the index for Israel's top 25 companies, rose 1.9 per cent to 327.89, adding to an 8.8 per cent gain since mid-February.

The TA-100 has been performing just as well, rising yesterday nearly 1.6 per cent to 316.89, on top of an 8 per cent rise over the past fortnight. Average daily turnover has increased from a paltry Shk100m to well over Shk200m, surging yesterday to Shk315m.

The improved performance stems from the government's monetary policy. When, for the first time in 30 years, a negative inflation rate of 0.5 per cent was recorded for January, institutional investors immediately assumed interest rates would fall. They did.

Jacob Frenkel, governor of the Bank of Israel and a staunch defender of a tight monetary policy to combat inflation, last month lowered the prime interest rate from 15 per cent to 14.5 per cent. Institutional investors, mostly local, returned to the market, snapping up blue-chip stocks, including Bezeq, the state-controlled telecoms company, and the banks.

But interest rates are still too high, as the International Monetary Fund made clear in its annual report on the Israeli economy which was published yesterday.

Last year, real short-term rates were 7 per cent. The International Monetary Fund said they should decline to 5 per cent by the middle of this year, assuming inflation remained under control, while the economy should grow 2.3 per cent this year, rising 3 per cent next year. This can only be good news for the markets. But any easing of monetary policy will depend on a number of issues, some beyond Israel's control.

Another emerging market crash could put further pressure on the shekel. Between August and November, when Russia defaulted on its debt and turmoil hit the markets in Asia, the shekel lost nearly 15 per cent in value.

The downward pressure on the currency accelerated inflation. Interest rates were increased four percentage points. "Another crash would clear be an obstacle to TASE's continuing recovery," said Eli Nahum, analyst at Nassuah Zannex investment house.

Closer to home, the IMF, in contrast to officials in Benjamin Netanyahu's government, believes the economy will be subject to uncertainty because of the run-up to the elections and the difficulties in implementing last year's Wye peace agreement between Israel and the Palestinians. Such factors may suffice to dampen just a little the optimism of traders and analysts.

Judy Dempsey

Wall St marks time in search for direction

AMERICAS

Wall Street took a breather in early trading with a fresh wave of merger speculation and changes to the outlook of analysts failing to give direction, *writes John Labate in New York.*

By early afternoon, the Dow Jones Industrial Average was down 8.96 in choppy trading to 9,288.65, while the Standard & Poor's 500 index had edged ahead less than 1 point to 1,226.09. The Nasdaq composite index, weighted in high-tech shares added 1.74 at 2,260.77.

Shares of Jones Apparel tumbled more than 11 per cent or $3⅛ to $22⅞ after it announced it had acquired shoemaker Nine West for $1.4bn. Shares of Nine West were $⅞ higher at $23.

In the generally slow trade, deal rumours took root. A report that DuPont, a component of the Dow, was in talks with Monsanto sent the latter's shares up 4.5 per cent to $46⅝. DuPont rose $⅞ to $51⅝.

3Com, the computer networking company, tumbled 12 per cent to $3¼ one day after warning the market that its revenue and earnings would be below expectations. On Wednesday 3Com fell 11 per cent on the news. Shares of rival Cisco Systems were up $¼ to $95⅞.

Cyberian Outpost, the internet company, surged 38 per cent or $5⅛ to $32⅛ after the company previewed its fiscal fourth-quarter net sales figures.

Among online trading companies, E*Trade was down $1 to $46⅞ and Ameritrade climbed $5¼ to $46¾ after earnings per share estimates for both were raised by CS First Boston.

In the retail sector, Tiffany's rose $3⅞ or more than 6 per cent to $62⅞ while Kmart fell $⅛ to $17⅞ after both companies released earnings reports.

In the Dow, Walt Disney rose $⅜ to $34⅞ after Morgan Stanley Dean Witter cut its earnings per share estimate for the entertainment company but maintained its rating.

Union Carbide was off 4 per cent to $43⅞ one day after gaining 7.5 per cent on takeover speculation.

The Russell 2000 index of small-company shares dipped 1.46 at 392.97.

TORONTO started moderately higher but later retreated, with the 300 composite index losing 27.29 or 0.4 per cent to 6,197.90 at midsession, extending Tuesday's 1.2 per cent loss.

Traders said investors were shifting money into the bond market and away from equities. The benchmark 30-year bond recovered slightly, but the yield, at 5.493 per cent, was still considered attractive.

Telecom software company Architel Systems, the target of an all-stock bid by Amdocs of the US, was trading C$6 or 25.1 per cent higher to C$29.90, still a long way off Amdocs' C$37.50-a-share offer.

Conglomerate Canadian Pacific was 30 cents higher to C$36.40, showing one of the best performances in its sector, while airline Air Canada, one of the morning's strong stocks, was flat at C$6.15 at midsession.

Tax row undermines Dax

EUROPE

A combination of political uncertainty and interest rate wobbles sent FRANKFURT steeply lower. The Xetra Dax index ended a thin session off 129.32 at 4,668.52.

RWE fell steeply as worries about the group's role at the centre of an escalating row between the government and corporate Germany over tax reform undermined sentiment. The shares slipped €2.16 at €36.99.

BMW shed €34 at €599.99 and DaimlerChrysler, hit by a further wave of safety scares this time involving its small Smart car, lost €3.79 at €79.86. Cyclicals lost ground with Linde down €14 at €482 and Henkel €2.30 at €72.70. Siemens gave up €2.14 at €53.36.

Preussag was a rare firm feature, adding €8.50 at €448 as investors continued to warm to the theme that the group was set to launch a big UK leisure takeover.

The FTSE Eurotop 300 index fell 7.98 or 0.66 per cent to 1,201.29. See Euro Prices page.

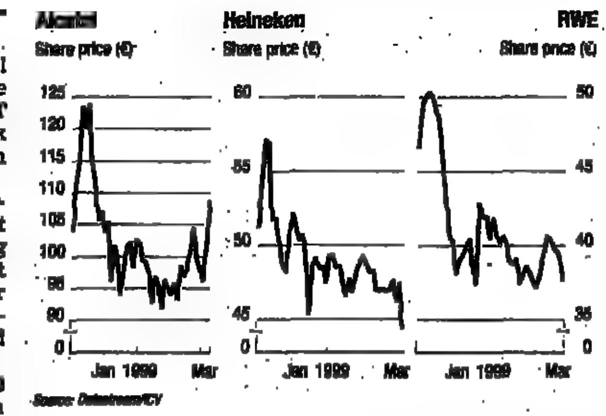
PARIS ended another sluggish day 1.1 per cent worse off, following the rest of Europe and a feeble Wall Street. The CAC-40 retreated 44.47 to 4,004.16.

Alcatel led the gainers, moving €7.60 or 7.5 per cent ahead to €109.10, as investors continued to cheer its planned acquisition of Xylan of the US. But the stock, which plunged through the floor on a profits warning in September, was still a long way from its July 1998 high of €215.10.

Peugeot slid €3.80 to €116.30 after posting positive but lower-than-expected 1998 profits that compared poorly with Renault's 63 per cent rise announced on Monday.

Bank issues delivered a strong performance amid renewed M&A talk in the sector. CCF outperformed its peers, adding €2.60 to €81.15, while Société Générale put on 60 cents to €136.10.

BNP moved €1.35 ahead to €75.85 after Goldman Sachs increased its 1999 earnings per share forecast after strong 1998 results on Monday.



Source: Datastream/ICV

AMSTERDAM moved lower for a third day, slipping a further 8.93 to 516.16 on the AEX index after a number of heavyweight results did little to bolster sentiment.

Insurer Aegon eased 95 cents to €93.55 following results in line with broker forecasts. Brewer Heineken crashed €2.55 or 5.4 per cent to €44.85 after warning about slowing earnings growth this year.

Market fragility was fully reflected in Wessanen which came off 45 cents at €11.55 in spite of some very positive treatment from Goldman Sachs. The broker lifted its target price for the foods giant to €13.6, increased 1999 earnings estimates by 10 per cent and upgraded it to "market performer" from a long-standing "market underperformer".

Among financials, ABN-Amro came off 30 cents at €17.75 after the group declined to comment on an Italian report that it was set to take a stake in Banca di Roma.

ZURICH was flat after trading in a narrow range, with many investors unwilling to commit themselves to fresh strategies. The SMI index finished 9.6 higher at 6,986.1.

SAir Group was one of the few shares to see much action after chief executive Philippe Brugisser warned the annual press conference that the group faced a difficult year ahead with pressure on margins. The shares gave up SFr9.50 to SFr308.50 as 1998 results emerged in line with expectations.

Ares Serono added to Tuesday's 10.8 per cent tumble with another of SFr91 or 4.2 per cent to SFr2,099. The shares remained under pressure from news that US regulators had decided not to clear the group's multiple sclerosis drug Rebif for sale.

CS First Boston cut its 12-month share price target by 7 per cent to SFr1,950 but repeated its hold recommendation.

MILAN ran out of steam, closing at its low for the day as investors kept a wary eye on developments in Frankfurt. The real-time Mibtel index turned back from a high of 23,812 to finish 356 lower at 23,390.

Olivetti climbed as high as €3.08 with investors said to be piling out of Telecom Italia, its bid target. But by the close, Olivetti was just 1 cent higher at €3, while Telecom was marked 17 cents lower at €9.47, below Olivetti's €10 a share bid price.

Banca di Roma picked up 4 cents to €1.36 after local press reports said that ABN-Amro of the Netherlands was in talks to acquire an 8.7 per cent stake.

Aeroporti di Roma jumped to a high of €7.59 after a report that the American fast-food giant McDonalds was interested in making a bid for part of the group. By the close ADR was 3 cents higher at €7.31.

HELSINKI parted way with the bigger European markets, ending 1.1 per cent higher, boosted by a bullish technology sector and healthy cyclical stocks. The Hex index was 64.06 ahead to 6,119.33 as investors banked on an economic rebound.

Tieto, which confirmed its merger with Sweden's Enator and said the combined company was considering a European acquisition, ended €2.40 or 6.25 per cent higher to €40.80.

Fellow high-tech issues Talentum, up 60 cents to 13.80, and Novo, €1.90 higher to €32.90, jumped on the bandwagon.

Written and edited by Michael Morgan, Bertrand Benoit, Paul Gregan and Mark Herilhy

São Paulo holds steady despite liquidity squeeze

SAO PAULO was little changed in early trading, confounding suspicions that shares would open steeply lower after central bank moves late on Tuesday to tighten money market liquidity.

Still groggy after sliding this week to record lows against the dollar, the Real continued to undermine broad investor confidence. "The International Monetary Fund deal had better come soon," said one embattled foreign exchange trader.

At midsession, the benchmark Bovespa index was off 14 at 9,056 in thin volumes.

MEXICO CITY also moved lower in early trading as sentiment stayed weak after three days of decline.

Volume was said to be minimal. Market heavyweight Telmex gave up 25 centavos to 27.35 pesos. The IPC index was off 35.68 at 4,150.97 at midsession.

Golds lead Jo'burg higher

SOUTH AFRICA

Johannesburg was sharply higher as bullish sentiment in the wake of Tuesday's prime rate cut and derivatives-linked trade lifted the benchmark.

The overall index closed above the important 6,000-point level, climbing 107.3 or 1.8 per cent to 6,087.5.

Golds led the charge with the index rising 2.8 per cent to 915.9 as the rand remained under pressure. Industrials climbed 1.6 per cent to 6,933.0.

Nikkei rises on strong dollar

ASIA PACIFIC

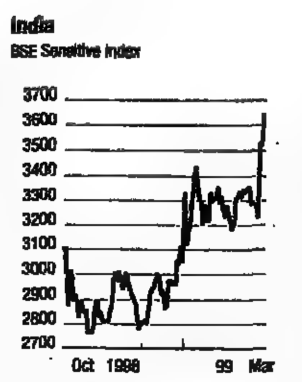
After a three-day run of losses, TOKYO advanced as investors were encouraged by the dollar's rise against the yen and by lower interest rates, *writes Michiyo Nakamoto.*

Buoyant sentiment took the Nikkei 225 average back above the important 14,000 level. The benchmark gained 249.30 to close at 14,170.36, after moving between a high of 14,170.46 and a low of 13,927.73. The broader-based Topix index of all listed shares rose 7.73 to 1,099.81 and the Nikkei-300 index added 1.55 to 219.44.

Gaining issues outnumbered losers 691 to 411 while 195 were unchanged. Volume fell, however, to 395m shares from 457m on Tuesday.

The dollar's strength helped exporters to recover after a recent losses. Sony gained Y380 to Y9,070 while Canon advanced Y55 to Y2,640. Sony was also helped by the announcement on Tuesday that it would launch its new PlayStation video games machine by March next year.

Companies which have announced restructuring measures also attracted attention as investors became resigned to the fact that corporate earnings would deteriorate significantly in the current business year.



Source: Datastream/ICV

Chiyoda, the plant engineering company, attracted attention as expectations were raised after a news report that it would restructure with the help of Kellog, Brown and Root of the US. Chiyoda added Y10 to close at Y280, after surging to Y301 during the day.

Hino Motors, the truck manufacturer, also attracted interest on the back of restructuring hopes, rising Y19 to Y397 on news that it would reduce its workforce by 400, even if it had to lay off workers.

Nissan, the troubled car maker, added Y13 to Y480 in heavy trading after it said it would consolidate vehicle parts purchasing operations at its two North American plants.

BOMBAY closed at a nine-month high as the market extended its gains since last Saturday's budget to 12.6 per cent. The BSE-30 index put on 116.44 or 3.3 per cent to 3,640.42, still supported by Monday's interest rate cuts.

Banking stocks also rallied on expectations of improved fourth-quarter earnings after the rate cuts, as did stocks in the information technology, pharmaceutical, housing finance and consumer goods sectors.

Scattered profit-booking by domestic financial institutions towards the end of the session took shares off highs, but the undertone was strong, with a good deal of buying by foreign funds also evident.

Among index heavyweights, Hindustan Lever rose Rs89 to Rs2,140.75 and ITC added Rs39.20 to Rs924.25.

TAIPEI pushed ahead strongly in late trading after a wave of buying buoyed financials. The weighted index broke above 6,400 for the first time since mid-January, rising 139.6 to 6,403.14 in active turnover of T$87.2bn.

Financials ended 4.3 per cent higher as sentiment turned on Tuesday's news of government plans to abolish financial institutions' business tax. Chang Hwa jumped T$2 to T$51 and First Commercial T$3 to T$56.50.

MANILA rose 2 per cent or 38.54 to 2,008.92 on the composite index after the latest Treasury bill auction applied downside pressure to interest rates.

Property shares were in demand and by the close of an active session that saw total turnover surge to 1.4bn pesos the property index was up 2.2 per cent. However, bad loan concerns continued to dog PNB, down 4.50 pesos or 7.4 per cent at 56 pesos.

KUALA LUMPUR extended its retreat by 2.4 per cent as investors expected a string of weak company results in the coming weeks. The composite index lost 12.80 to 513.23.

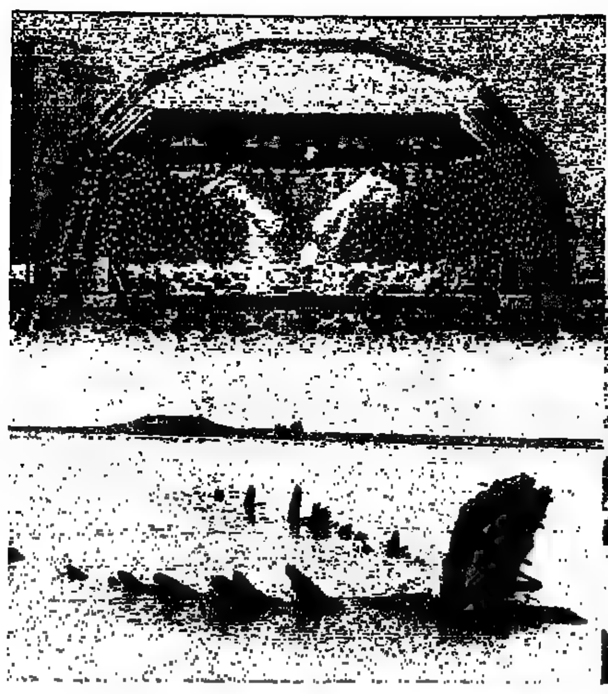
Political uncertainty ahead of regional elections also took their toll while traders blamed part of the fall to programme selling by a large US broker.

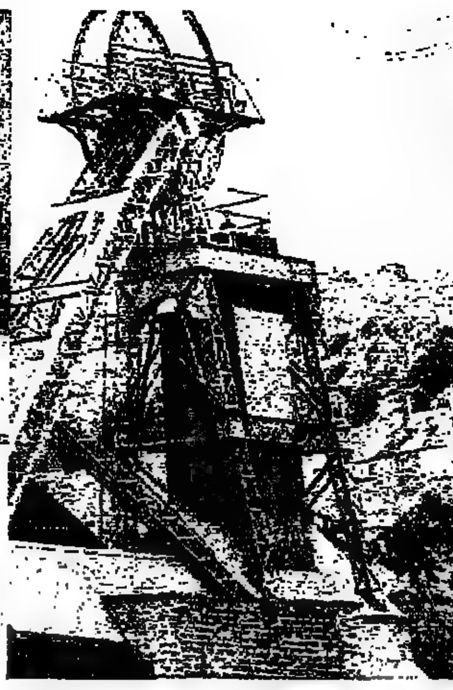
Market heavyweight Telekom Malaysia, which reports 1998 results today, shed 25 cents to M$7.60.

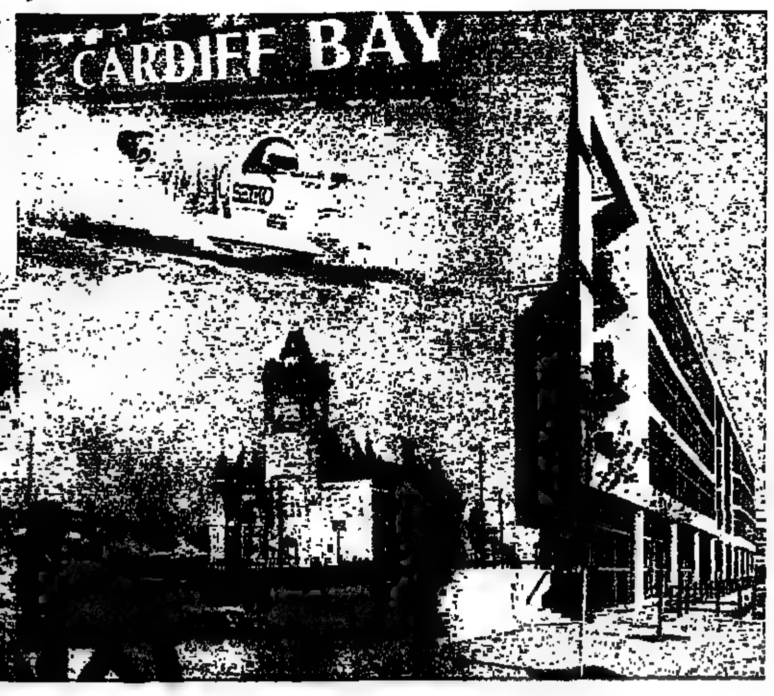
هكذا من الأصل

Firing up the dragon

As the principality prepares to re-embrace a long-lost self-determination, **Juliette Jowit** raises the question of timing – as industries go global, is this the right juncture to regionalise?







This summer the first Welsh national assembly for more than 500 years will be opened by the Queen. Later in the autumn, the country will host the Rugby World Cup final, expected to be watched by up to 3bn fans.

These events, following last year's European heads of state summit and the visit of Nelson Mandela, have been heralded as the dawn of a new era for a more confident, modern Wales.

Gone are the grimy old coal pit and slag heap images of Wales, and memories of tired amusement arcades on windswept piers, say the New Wales evangelists.

Now step aside for the fresh wave of chart-topping Welsh bands, the opening of the first AA/RAC five star hotel in the £2.4bn Cardiff Bay regeneration scheme, the self-determination of the Welsh assembly and, most importantly of all, a more dynamic, growth economy.

Recent figures showed the Welsh economy is expected to outstrip the UK average over the next decade, with 150,000 vacancies a year arising from net job creation or people moving to new jobs.

David Rowe-Beddoe, chairman of the newly enlarged Welsh Development Agency, says there has been a transformation to light engineering and service industries.

"I think the economy can be characterised certainly as an increasingly modern and diversified one and it's got clear strengths in a number of significant industrial structures: automotive, electronics, IT, aerospace, opto-electronics and telecommunications.

"I think the other thing that's very clear in the Welsh economy is it has a highly skilled, adaptable and motivated workforce. That will be a key in the development of indigenous business as it has been in the success we have had in the last two to three decades in attracting inward investment."

There are, however, remaining problems, many of them structural hangovers from the sometimes troubled transition from the days when Wales was hugely dependent on coal, which is now almost non-existent, and steel, which although still productive employs only a fraction of the workforce.

Increasingly over the last 20 years, much of the economic growth in new areas has been kick-started and driven forward using government and European grants, through the WDA and Welsh Office.

Indigenous business grants and other support are widely welcomed and seen as enjoying above average success rates, but some criticise the widespread use of grants for foreign investors.

They fear such companies lack a strong commitment to the local economy in times of trouble, a problem accentuated because 30 per cent of the manufacturing workforce in Wales is employed by overseas companies.

The most recent example of this is the closure of the Lucas SEI car components factory near Swansea in South Wales, with the loss of 750 jobs in an already high unemployment area.

"It's another example of the general footlooseness involved in foreign ownership in any regional economy," says Dennis Thomas, an economist at the University of Wales Aberystwyth.

"It emphasises the susceptibility of regional economics now to the globalisation of everything. Decisions are taken hundreds of miles away from a region, yet they can have dramatic consequences for the economy."

A second issue is the sometimes massive disparity between different regions in Wales, particularly between the eastern M4 and A55 corridors where investment has concentrated, and the western regions and south Wales valleys, where gross domestic product per head of the population is up to 40 per cent lower.

There is also a geographic division between north and south, with drivers forced to spend three to five hours travelling over the mountains or across the border and via the busy M5 motorway.

This has led most companies in north Wales to look over the border to the north-west of England cities of Manchester, Liverpool and Chester rather than Cardiff. The overall result is a divided and weakened professional services sector.

One of the most damaging knock-on effects is a lack of investment finance for local companies to grow, says Jim Thompson, chief executive of David McLean, the biggest combined development, housebuilding and contracting company in Wales, based in Flint in the north.

The success of the Welsh National Assembly will "stand or fall" on the basis of the economy's success

"There are only two brokers in Manchester and none in north Wales, and southern brokers don't want to come up [from London]," says Mr Thompson, who with others in the region has set up a special taskforce to tackle the issue in the north-west as a whole.

"It's a big problem . . . we are trying to encourage funds to invest and also to attract companies and skills that can handle that sort of deal."

Mr Rowe-Beddoe defends the record of overseas investors: an unscientific record kept by the agency shows the number of new jobs created in recent years is still more than jobs lost through more high-profile closures.

The WDA has pledged more support for indigenous businesses, but inward investment continues to be very important to the country, says Mr Rowe-Beddoe, who believes the two are interdependent, not conflicting needs.

"The balance is something I believe in and we know that in encouraging inward investors to become firmly embedded in Wales we do it by satisfying needs for competitive supply and services," he adds.

Other changes are also being made by the WDA, which last year merged with the Development Board for Rural Wales, its mid-Wales equivalent, and the Land Authority for Wales.

The restructuring led to a wave of job losses, but front-line staff in regional offices were increased by 20 per cent, and other indigenous support projects such as Xenos, the business angels network, and the Regional Technology Transfer scheme, have been stepped up.

An enlarged agency also makes it easier to try and iron out regional disparity and tackle other all-Wales problems by taking a more strategic overview, says the chairman.

"I see that body achieving this more even spread of economic activity through three very important things: an increased focus on local delivery of services . . . being more strategic . . . and working in partnership with local authorities, the private sector, regional economic forums and trade unions, etcetera, to ensure we have a consensus for achieving the strategic objectives."

In this context, the 60 members of the Welsh assembly will be elected on May 6. The government admits their success will "stand or fall" on the basis of the economy's success.

The Welsh Development Agency is diplomatically positive about the change of command, although privately some fear the transition from three ministers at the Welsh Office could make decision-making more complex and muddled by individual members' local interests.

Mr Rowe-Beddoe focuses instead on the potential benefits of self-government. "The assembly will add to [our] task of raising the profile of Wales [to attract investment]."

Individual businesses, many of which have been ambivalent or wary about the assembly, are also now responding to the inevitable change.

Few believe it will make a big difference in the short term, but they hope in the long run it will give Wales a much stronger voice in the UK and Europe in particular.

"I think Wales can fight for itself better at Westminster and in attracting future funds from Europe. There's more passion so they'll be able to argue better," says Jim Thompson.

NORTH WALES by Patrick Jenkins

New road lifts curtain on promising performance

The A55 will put previously isolated parts of the principality in touch with a thriving Irish economy to the west and England and the rest of Europe to the east

It is ironic. North Wales – far more a bulwark of Welshness and the Welsh language than the south of the country – has a tradition of spilling over the border into Cheshire and Merseyside even more readily than south Wales interacts with the south-west of England. North-east Wales has long been plugged into the mainframe of the British economy as a result.

The north-west, though, traditionally one of the raw materials bases of the principality, has historically been rather isolated. And the area has struggled to attract the volume of modern manufacturing and public services investment that the north-east has achieved. Today, there are fresh hopes that the east-west divide can be breached and that the regeneration of north-west Wales can be fostered in earnest.

The 1997-98 annual report of the Welsh Development Agency reveals that 2,159 jobs were created and safeguarded in north-east Wales, against 1,324 in the north-west – not a bad ratio, given the population spread in the predominantly rural west.

The fact remains, though, that investment has sharply favoured the east: more than 10 times more money has been allocated to big projects in the eastern corner of Wales than to those west of the River Clwyd.

The backbone of the strategy to remedy such apparent neglect will be a new section of A55 dual carriageway on Anglesey, connecting the port of Holyhead in Wales's north-west corner to LlanfairPG, which now qualifies for a second entry in the record books: not only is its full name (Llanfairpwllgwyngyllgogerychwyrndrobwllllantysiliogogogoch) the longest in the world, but now it is also a hub for Wales's first private finance initiative road-building scheme.

The road will complete the link from Holyhead and Ireland to the UK motorway network. It will also help to encourage money from across the English border to go further west than the traditional inward investment hot spots of Wrexham and its surrounding area.

Optimists say projects such as the A55, and the influence of a revitalised Irish economy across the water, are forming a two-pronged assault on the north-west's record of retarded growth. "We're part of an axis from Dublin to the Ruhr," says Chris Farrow, managing director for north Wales at the WDA.

Some of the locals might see it slightly differently. The road improves communications so much that work that was once part of the community is now exported to Chester. Critics also suggest that the bulk of Irish loads will be through-traffic to England, bringing little but noise and pollution to north Wales.

Construction of the A55 is due to start next month. The contracted consortium, UK Highways – which brings together Tarmac, Laing and consultants Hyder – will build the 32km stretch of dual carriageway and maintain it for 30 years from its planned opening in early summer 2001. The construction portion of the deal will cost £100m, which will be financed through a mix of long-term debt and equity. UK Highways will then receive an operating income from the government based on the volume of traffic that uses the road.

Investors in people: Alun Michael, right, the man chosen to lead Labour in the National Assembly, and Peter Hain, his campaign manager, stress the Welsh Office drive for investment and jobs PA

Weak rail links to the region could also do with a boost. Most passenger services are now operated by Virgin Trains, which has yet to rectify all the problems on the routes. One recent north Wales investment project – that of Tokai Rika, the Japanese car components maker, which is setting up a £6.3m plant on the St Asaph Business Park in Denbighshire – was said to have been jeopardised by the chaotic rail journey the company's management made from London.

Richard Branson has since made a personal pledge to introduce high-speed tilting diesel trains on to the north Wales route.

Alongside such hiccups, there have been two notable items of bad news for the area.

Carlsberg-Tetley's closure of its Wrexham plant will now go ahead at the end of this year – three months later than originally planned, so that the group can use Wrexham as an overflow brewery for any surge in demand due to millennium celebrations. When the brewery does finally shut, the locally popular Wrexham brand of beer is also expected to die.

And there has been similar upset in Prestatyn, where Kwik Save, the supermarket chain, will close its headquarters next month. Around 700 jobs are going, as control is transferred to the Bristol head office of the company's new owner, Somerfield.

The overall picture for North Walian inward investment nevertheless looks bright. Second only to the A55 artery in terms of financial commitment over the past year was the £45m pledge last summer by Toprack Ceramics, of Turkey, to set up a manufacturing plant at Deeside Industrial Park. And in January of this year, an injection of £17.8m by Cartoinvest, the Italian paper group, at Oakenholt, was announced following its acquisition of North Wales Tissue.

Among several other multimillion pound deals, one in particular stands out: that of the £3.6m injection by Cross Vetpharm of Dublin in the Bimeda veterinary pharmaceuticals depot at Llangefni, on Anglesey. The investment sounds a note of confidence that Irish money is not shy of coming to an area that has suffered a degree of infrastructure isolation, but which through the A55 development is now integrated with the rest of Wales and the world.

There are numerous smaller projects in the pipeline. The local Daily Post newspaper regularly leads with stories of hundreds of new jobs being created – a potential 200 by the WDA and Sandringham Investments, the pension fund, at a call centre in St Asaph; 280 in Rhyl for a new food plant; up to 100 for a development by Glendale Leisure in Prestatyn, helping to offset the Kwik Save job losses.

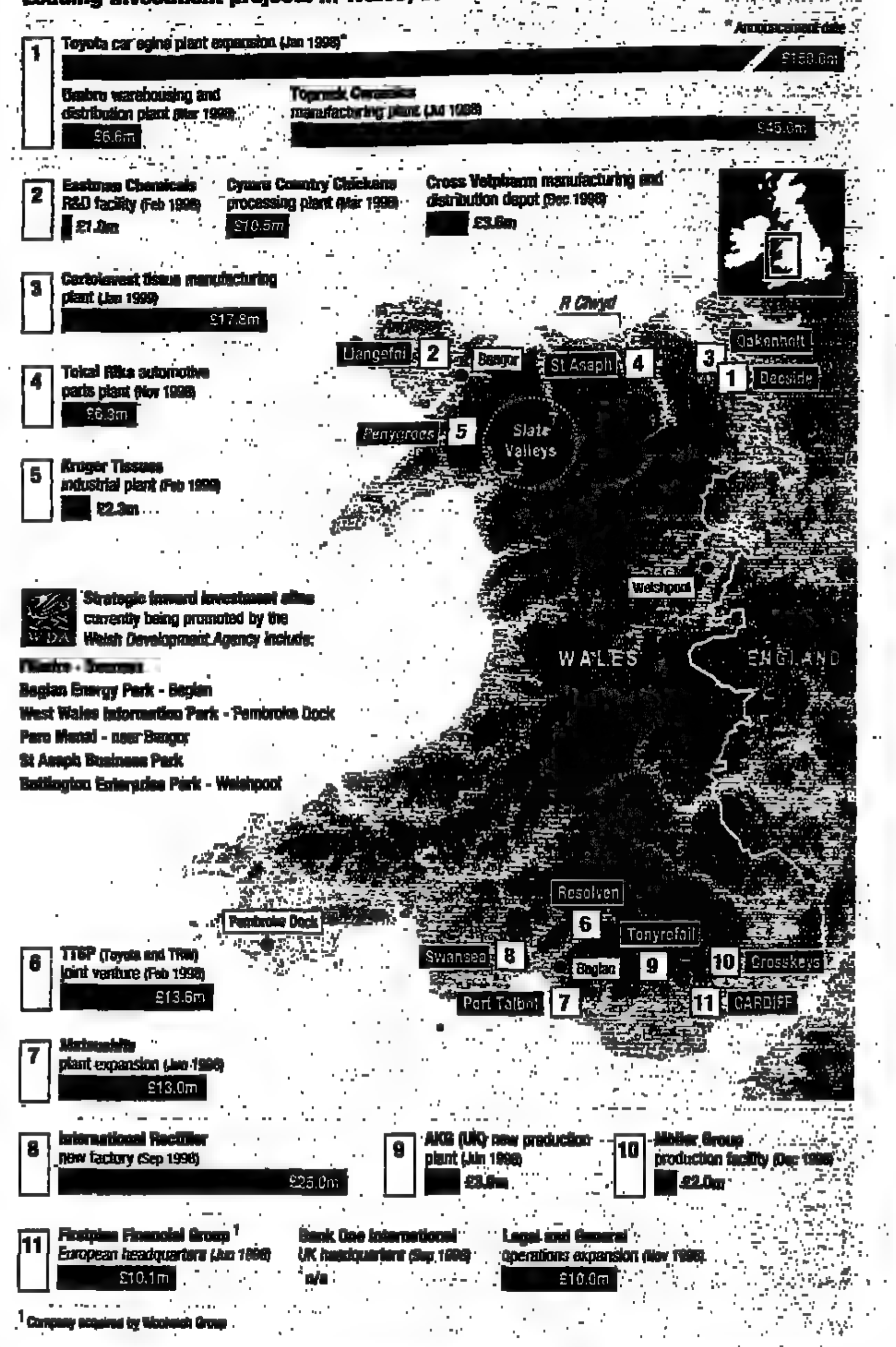
Prestatyn is also one of a handful of north Wales towns to have won regeneration funding from Europe. Colwyn Bay, Flint, Holywell, Llanrwst, Shotton and Connah's Key were similarly slated for inclusion in the programme, dubbed Adapt, which retrains workers in blighted areas.

In addition, the Welsh Office has allocated a portion of its £31m Capital Challenge fund to community development programmes in north Wales: £3.3m will go to the the obsolete slate valleys of Gwynedd; and the Wrexham area will get a multimillion pound package too.

Mr Farrow at the WDA is proud of Clwyd's prosperity – unemployment, he says, is as low as 3.5 per cent and GDP is higher than that of Cardiff. But he is not frightened of admitting weakness and welcomes recognition that other areas of north Wales – Gwynedd, Denbighshire, Conwy and Anglesey – are to be deemed in need of European Commission Objective 1 funding status; confirmation is expected by the end of March.

The improving fortunes of north Wales are often down to hard-headed business development. But the area's soul is alive and well, too, and symbolised by its acclaimed Mold-based Theatr Clwyd. Dogged last year by controversial grants and an accounts deficit of £700,000, it still won the Barclays Theatre Awards to take the title of Britain's best theatre.

Leading investment projects in Wales, Jan 1998 – Feb 1999



ECONOMY by Christopher Adams

Heavyweight of old fights to get in trim

As new investment fights to plug the gaps left by traditional industry, the principality is finding its rejuvenating shift towards export-based light industry is creating its own problems

An economic revival spurred by billions of pounds of inward investment is providing a welcome boost to the flagging Welsh economy. But the principality still finds itself lacking in high-growth areas.

New prosperity in the south-east of Wales is starting to spread to other parts of the principality – but slowly. Unemployment in the valleys north of Cardiff, where communities grew up around the once mighty coal industry, remains high by national standards. Early retirement and long-term sickness rates also exceed the UK average. Towns further west in Pembrokeshire are having to cope with the planned closure of the Gulf oil refinery at Milford Haven and cutbacks in the defence industry, both big regional employers.

In the north, the high employment levels once generated by the slate industry have never been replaced. Rural parts of Wales are among the poorest areas in Britain. Heavily reliant on agriculture, these blackspots have been hit hard by the BSE crisis. Wage levels and GDP are 30 per cent below the UK average and the population is ageing as young people seek employment elsewhere.

The statistics tell a depressing story. Welsh output per head is 83 per cent of the UK average. Some 5.4 per cent of the workforce are unemployed, compared with 4.5 per cent for the UK as a whole. Household income per head is £9,300, or 87 per cent of that for the UK.

"High levels of inactivity mean productive potential is being lost. There just aren't enough people contributing to output," says Stephen Hill, chief economic adviser to the Welsh Development Agency.

The principality's economic problems are deeply embedded. Throughout the 1970s, the economy was characterised by a dependence on heavy and extractive industries, with the production of coal, iron and steel employing some 120,000. But the subsequent decline of these sectors devastated the economy, bringing enormous job losses. By 1991, they employed fewer than 20,000.

Since then, Wales has been trying to re-invent itself. Its greatest success has been in attracting inward investment to the manufacturing sector. Foreign companies have been attracted by relatively low wage costs and flexible workforce that have combined to push manufacturing productivity 12.9 per cent above that of the UK average. Many have established manufacturing bases for export to Europe, revitalising Wales's industrial heartland. Within the past year alone, US and Japanese manufacturers including Toyota, Matsushita, Tokai Rika and International Rectifier have all set up factories or expanded existing plant.

Since 1983, the economy has benefited from £11.8bn of inward investment, much of it directed at the automotive and electronics industries. The manufacturing sector accounts for 28 per cent of gross domestic product, compared with 21 per cent for the UK as a whole.

However, the concentration on export-led manufacturing has created its own problems.

A downturn in the global economy, combined with a recent rise in the level of sterling, has hurt most UK-based exporters and the Welsh economy is especially vulnerable. The Confederation of British Industry in its latest survey of Welsh manufacturing, published last month, said confidence, output, investment intentions and employment were declining sharply. More than a quarter of employers are shedding jobs, the highest rate in six years.

Many companies, including high-profile inward investors, have been forced to cut production. LucasVarity and Japan's Sumitomo announced the closure of their jointly owned car electrics factory near Swansea in January, with the loss of 750 jobs. The financial crisis in Asia is also threatening to halt foreign investment flow.

Brian Willott, chief executive of the WDA, says the focus on manufacturing has left Wales without a strong high value-added service sector. Tourism and public administration, where productivity and wages are relatively low, dominate services output, while business and financial services are underdeveloped. "We obviously want to build on the sectors where we have a strength, but we cannot be monolithic. The balance must shift towards services. That's where the growth is."

One area where Wales is gaining ground in services is the call centre industry. In November, Legal & General, the insurer, announced plans to expand its operation in Cardiff, creating 1,000 jobs. Admiral Insurance also has a call centre and US-based Bank One decided last year to base its international headquarters in Cardiff, taking a vacant site in the city's new bay development.

But simply promoting the growth of services will not be enough on its own to lift growth and employment in west Wales and rural areas. Professor Kevin Morgan of Cardiff Business School argues that cultural barriers must be overcome if the economic revival on the south coast is to ripple through to the valleys and the west.

"The single most difficult issue is a chronic deficit of entrepreneurialism," he says. "Business is frowned on because of the social legacy of the coal mines. We have almost no indigenous business class on which to build."

According to a report published last week, business managers, restaurateurs and secretarial staff will be in greatest demand over the next 10 years in Wales. Sales and engineering will also be growth areas, according to the survey of employers by Business Strategies. However, the report also identifies acute skills shortages, with nearly a third of companies encountering difficulties in finding the right staff.

Improvements in infrastructure will also be essential. While new roads such as the A55 in north Wales have vastly enhanced transport links, more accessible and affordable public transport is needed to encourage those in the valleys and villages to commute to jobs in the cities and large towns.

Mr Hill says new initiatives are needed to help companies set up. Self-employment, which is much lower than in other parts of the UK, must rise. Graduates should be encouraged to start their own businesses. Small Welsh-formed companies that do not export, and fewer than 5 per cent do, should be more aware of the opportunities in overseas markets. Big inward investors could be better integrated with local supply chains. More companies could work with the universities to exploit research and development capacity. "If all manufacturing does is import components and export goods, you're not maximising the benefits."

The principality is lobbying hard in Brussels for areas of north and west Wales to be granted Objective 1, a favoured status to qualify for additional European Union structural funds. If this is forthcoming, the task then for policymakers will be how to shift resources to the areas that need it most.

Inward investment into Wales
April 1 1993 - March 31 1998

Total jobs

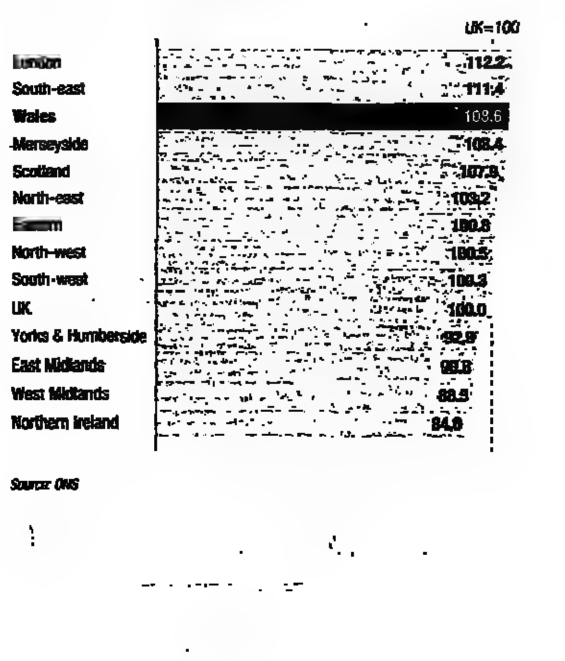
From	New jobs	S/G jobs*	Total jobs	Capex (£m)	Projects
UK	16358	9471	25829	660.0	361
Europe	4358	3003	7361	387.3	115
North America	6165	7900	14065	2398.5	143
Japan	6320	1924	8244	577.4	45
Asia Pacific	10016	862	10878	2087.8	21
Total	43217	23160	66377	6311.1	685

* Safeguarded

Capex

Source: Welsh Development Agency

Index of manufacturing productivity
1995

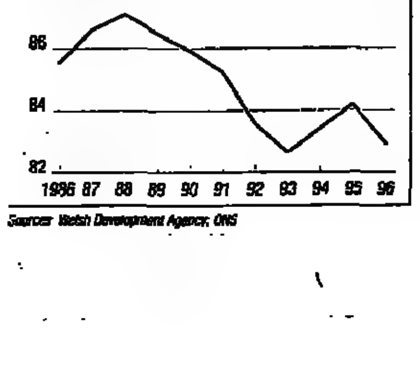


Source: ONS

Economic summary

	Wales	% of UK
Population (million)	2.92	5.0
Workforce (million)	1.14	4.2
Area (sq km)	20766	8.6
Household income per head (£)	9316	86.9
Unemployment rate (%)	6.4	4.2
Total GDP (£m)	25995	4.1
GDP per head (£)	8896	83.1

Welsh GDP per head (index)



Source: Welsh Development Agency, ONS

GDP by sector (%)	Wales	UK
Agriculture	1.8	1.8
Energy and utilities	3.7	2.5
Manufacturing	28.5	21.7
Construction	5.5	5.5
Distribution, hotels and catering	12.9	14.8
Transport/storage and communication	6.2	8.5
Financial and business services	17.4	26.1
Public administration and defence	7.5	6.1
Education/social work/health	15.5	12.9
Other services	3.5	3.9
Adjustment	-2.8	-4.2
Total	100	100

CASE STUDY
FIBRELINE

Private capital injects buoyancy

Efforts to involve wealthy entrepreneurs with Welsh business start-ups are beginning to pay off. A company that manufactures narrow boats is the latest of several ventures to have received a powerful injection of capital from this source.

Fibreline started with an idea. Jeremy Mead, a long-standing yachting enthusiast, was suffering health problems. Handling boats was becoming difficult and he needed something easier to steer. His idea was to build a canal boat that was both lighter than traditional steel models and more manoeuvrable.

"There are problems associated with steel boats. The steering is heavy, they hit locks and other boats," says Jeff Richley, Fibreline's managing director.

Mead designed a craft that looked like a traditional narrow boat, but behaved differently. Made of glass-reinforced plastic (GRP), a material used for building yachts, it was half the weight of steel boats and therefore easier to steer.

Mead had a concept, but no money, and a prototype boat would be both expensive and time-consuming to build. He sought help from a business friend, Vic Parkin, who agreed to inject an initial £120,000. Mead then began constructing a mould.

"Ambition" was the first of its kind. Launched in August 1997, it was put on to the Monmouth and Brecon canal for testing. "The industry thought the boat would be impossible to build. It's hard to keep the stiffness in a craft that's over 45 feet long," says Richley.

With backing from Lloyds TSB and Blaenau Gwent County Borough Council, two pre-production boats followed for more trials with prospective buyers.

The boats proved both manoeuvrable and strong. But, by now, Parkin's money was running out and the two men needed another backer. In June 1998, Parkin asked Richley, who had just sold shares in the company where he was finance director, to provide a fresh capital injection.

Richley sank £80,000 into the project and became managing director. "I saw the selling point: the boat's handling. But I knew we needed to create a business. They were in an amateurish mode. We developed a business plan and targeted a growth sector."

The fastest-growing area of the canal leisure market was for boats costing about £30,000. Fibreline would target older people coming from yachting or cruising and seeking a canal boat that required less physical strength to handle. But production and marketing would require further investment and even more capital was needed.

A timely injection of £75,000 from David Bibby, a Bridgend-based businessman who had no previous contact with any of the three men, was therefore an enormous boost. The company secured his assistance through Xenos, the Welsh "business angels" network. It learned of Xenos through the bank.

Fibreline is the fifth company to have benefited from Xenos's assistance. Xenos's purpose is to promote business links of the kind Mead had been seeking since he first thought of the GRP craft. The network was launched by the Welsh Development Agency, the Welsh Office and the Confederation of British Industry.

To date, some 65 business angels have been recruited by Xenos. Between them, they comprise about £20m in potential investment in Wales. The deals done so far are worth £500,000. More than 100 companies – from a fish farm in Anglesey to a children's day nursery in north Wales – are seeking equity investment to finance growth.

Ray Hurcombe, manager of Xenos, says such investors should help meet a need for specialised small business investment.

Fibreline plans to build 20 boats within the next two to three years, after which the original backers should begin earning a return.

There are still barriers to overcome. The biggest are perceptions of the GRP craft's strength and users' sense of tradition. However, Richley believes enthusiasts who previously would only have contemplated a steel boat will make the switch. The most recent steel designs, where plates are welded together rather than riveted, have only been in production for about 20 years.

He argues that GRP is in fact stronger than steel. Fibreline's boats bend on impact, whereas steel plates spring apart at the welds. Eager to prove its claim, the company is to carry out a collision test, to be adjudicated by an industry magazine. "Our job now is to convince the public," says Richley.

Christopher Adams

HARNESSING ACADEMIC EXPERTISE by Simon Targett

Links with business can be educative

Despite a quiet research reputation, Wales's universities boast a great deal of niche expertise and are forging ties with the commercial world at an exemplary rate

Welsh universities are not renowned internationally for their academic research: that, at least, is the view that can be drawn from statistics compiled by the universities' *funding councils* and the Higher Education Statistics Agency.

In the latest UK-wide research assessment exercise, the funding councils listed 43 universities with academic staff ranked in the highest 5* category. Wales had just two: Cardiff and Swansea. This compares with England's 34, Scotland's seven, and Northern Ireland's two.

In the latest nationally available figures for income from research grants and contracts, published by HESA, Wales's 14 higher education institutions amassed £51.03m in 1996-1997 – less than the individual totals amassed by five universities in England and Scotland.

University of Wales, Cardiff, received the highest amount: £15.92m. This was more than twice any other Welsh institution except the University of Wales College of Medicine, yet left it trailing behind 24 English universities, five Scottish universities and one Northern Irish university.

Put together, the figures present a grim picture of Welsh research.

But they tend to paint over the fact that the five main constituent colleges of the University of Wales, together with eight other institutions, boast a wealth of expertise in niche academic markets.

After London University, the University of Wales is the largest in the UK and, with the other institutions, has over 90,000 full-time students.

University of Wales, Bangor, claims to have the largest university-based marine institute, while University College of Wales, Aberystwyth, has the largest and one of the most prestigious international politics departments in the UK.

Cardiff is the biggest puncher in Welsh research, and under the stewardship of Brian Smith, a former master of St Catherine's College in Oxford, it is set to rise quickly up the research league tables.

In 1997-1998, the year after the latest available UK-wide figures collected by HESA, Cardiff saw its income from research grants and contracts exceed £26m.

Of this, £8.1m came from the research councils, £5.3m from government departments, £1.8m from charities, £1.1m from overseas investment, and the rest – £6.1m – from industry and commerce.

This last figure is significant. It represents a 92 per cent increase over the previous year's income from industry and commerce and, as a result, illustrates the growing links between Welsh higher education and the commercial world.

Cardiff has many links: the school of bioscience has won commercial funding for the study of petal wilting, amid concern that fast-perishing cut flowers could damage an industry worth more than £100m a year in the UK; the law department has attracted sponsorship for professorial chairs from Lloyd's Law Reports and Hammonds Suddards; while the department of physics and astronomy has ties with Nasa, including a professor working on the design of a new camera for the Hubble Space Telescope.

It also has seven research centres which have been designated "centres of expertise" by a panel of academics, industrialists and members of the Welsh Development Agency.

These centres – designed to boost the transfer of technology from the ivory towers of the university campus to the real world inhabited by companies mindful of the bottom line – include Cardiff's Japanese Studies Centre, which has flourished as Japanese companies have moved into Wales.

But the centres of expertise are not exclusively focused on the capital. Across the principality, there are 35, and while the University of Wales boasts the most – Aberystwyth has four, Bangor has seven, Swansea has five, and these three share the Institute of Non-Newtonian Fluid Mechanics – there are several other institutions that host a centre.

The University of Wales College of Medicine has an Institute of Medical Genetics which forms a big part of the worldwide Human Genome Project

Glamorgan University may not have scored a top-rated 5* – or even a 5 or 4 – in the research assessment exercise, yet it runs an Environmental Technology and Management Centre which has an industrial client list of over 100 companies, including British Airways, British Steel, L'Oreal, the Royal Air Force and Yorkshire Water.

Over the last three years, it has won contracts and grants worth over £2.6m, carrying out work on waste water treatment, air pollution control, noise and vibration research, and industrial combustion systems.

North East Wales Institute of Higher Education in Wrexham, another poor performer in the research assessment exercise, has a successful Centre for Water Soluble Polymers, and has an industrial client list which includes Unilever and Courthaulds, as well as Clwyd Refactory Fibres.

The University of Wales College of Medicine, a highly rated academy, has an Institute of Medical Genetics which forms a big part of the worldwide Human Genome Project – which is mapping the genes that make up the human body – and has carried out work for SmithKline Beecham, as well as medical charities.

Together, the centres aim to raise the industrial profile of Welsh research. As the Welsh Development Agency says, the expertise in Welsh universities is "of direct relevance to industry and commerce, but there has been a relatively low level of awareness of this relevance".

For the future, the WDA is planning to back a series of "spin-out" companies, offering academics and entrepreneurs interest-free loans of up to £25,000 as well as "incubation facilities" in higher education institutions.

It wants to see more companies like Agrisense, a Treforest-based firm set up to exploit innovative biological technology developed at Cardiff.

Founded in 1984, Agrisense now employs 70 people, and exports 95 per cent of its products, which have achieved sales of more than £6m.

If the programme works, it could create a cluster of similar hi-tech Welsh companies and help retain more graduates in the principality.

INTERVIEW
JOHN ELFED JONES

A man of great standing

The diminutive former Welsh Water chief is a giant in managerial and political terms


Chairing the National Assembly: Mr Elfed Jones has headed the Assembly advisory group and provided the carved wooden official seat for the First Secretary

John Elfed Jones can't understand why he's been asked to do an interview. I'm retired now, he points out.

Retired from his post as chairman and chief executive of Welsh Water maybe, but Mr Elfed Jones is still one of the most active and respected public figures in Wales.

This giant reputation opens the door to his country house near Bridgend and reveals himself to be incredibly short – shorter than his 13-year-old granddaughter.

"Lloyd George said Welshmen are measured from the neck up," he chuckles.

John Elfed Jones served in the RAF, worked in electricity supply, set up an aluminium smelting plant in North Wales, was seconded as industrial director to the Welsh Office by the Conservative government from 1979-82 and, as chairman and chief executive of Welsh Water, turned around the ailing authority and oversaw privatisation.

Then last year he was appointed chairman of the National Assembly Advisory Group, responsible for working out how the planned assembly could operate.

Why him? He is "very much" in favour of the assembly, but "wholly apolitical", he says. Also, "I like to think people believe I'm a possibly good chairman," he adds, now slightly embarrassed.

His CV suggests that others agree: it lists posts as chairman of HTV Wales, deputy chairman of HTV group, the first chairman of the Welsh Language Board, and a host of universities, and environment and youth charities.

While many business figures in Wales have been cautious about devolution, Mr Elfed Jones, now 65, is a devoted supporter.

He is horrified by how little time is dedicated in Parliament to Welsh affairs – one half-day a month – and by how "undemocratic" the Westminster party whip system is.

Sixty assembly members – rather than three appointed MPs, often from England – will have the time and understanding to solve local problems more effectively, he hopes.

"The decisions of the assembly will properly reflect the aspirations and desires of the people of Wales, rather than the interpretations of three very able ministers and a handful of senior civil servants."

To help the assembly, the chairman and board of the advisory group tried to set it up to be as "effective" and "inclusive" as possible.

One important decision was to have a round chamber, designed to encourage debate, rather than the slanging matches in the House of Commons, he says.

"A divided chamber spends an inordinate amount of time scoring what are often petty political points off one another, instead of actually getting down to the discussion of ensuring that the needs of a country are dealt with in an efficient democratic manner."

Another factor in his appointment might have been his business credentials. He is now chairman of card and giftwrap company International Greetings, last year voted best company on the Alternative Investment Market (Aim).

As the government worked hard to reassure the private sector, this was an important factor. The advisory group recommended business be given a say in policy making from an early stage.

The assembly can now help companies in other ways, says Mr Elfed Jones.

One notable feature of the Welsh economy is there are so few large indigenous companies, with the exception of a few, such as Hyder, the multi-utility, and Iceland, the frozen food stores.

The problem is a lack of entrepreneurship, says Mr Elfed Jones. "We need to transform the ethos of business understanding through further and higher education, so young people say 'I can be the next Branson'," he suggests.

More broadly, the private sector should reap the benefits of a new "positive nationhood" fostered by the assembly, he says.

"Because we have harnessed this feeling of nationhood, assembly members will move heaven and earth to make sure industry and commerce in Wales are not disadvantaged."

As chairman of the National Eisteddfod, the annual celebration of Welsh culture, Mr Elfed Jones and his wife Sheila last year donated the traditional bardic chair.

Nobody was deemed worthy of the honour, so it will instead be the official seat of the First Secretary of the assembly. The polished oak is carved into a simple high backed design with a carved bridge arching at the top.

The bridge once brooked the river in Bridgend, but is also a poignant symbol of his hopes for the assembly.

"He who wants to lead must be a bridge ... It's particularly apposite for the leader of the assembly – if he wants to be leader, he must also be the nexus between the people and the government."

Such ideals are laudable and appealing, but are they realistic? "The structure is there to allow that to happen," he says.

Juliette Jowit

PROFILE
KEITH BROOKS, CEO OF TBI

Rare example of bold commitment

The group that bought Cardiff airport has a thing or two to say about growth

Keith Brooks is a rarity: a Welshman leading a Welsh publicly listed company with international aspirations – and one that does not plan to sell out.

Mr Brooks is the 50-year-old chief executive of TBI, the airports and property group which started in Cardiff – and still has substantial interests in the city.

Launched as a pure property group, TBI has grown with the acquisition of airports in Cardiff, Belfast, Florida and, most recently, Sweden. Mr Brooks's strategy has pushed turnover from £17.7m in 1995 to £126.9m last year – and pre-tax profits from £4.1m to £24.1m.

The group stumbled into airports almost by accident. It was looking for a highly cash generative business to complement the property portfolio – and then John Redwood, then secretary of state for Wales, pushed through the privatisation of Cardiff Wales Airport.

Mr Brooks says he looked at the operation and was surprised by what he saw. "All our research showed that airports were a much more straightforward business than I had thought," he says.

The group was the dark horse in the race – up against established transport groups such as Stagecoach and National Express. But it "played the Welsh card for all it was worth" and won the business.

The business was turned around – and Mr Brooks turned his sights on other airports as the process of privatisation was stepped up around the world. Now airports are the main part of the business and the group has moved from the property sector to a transport listing.

But TBI is almost alone among successful listed Welsh companies, with the main exception being Hyder, the utility group. While Scottish companies swell the ranks of the London Stock Exchange and most big cities in England have a representation, few from Wales have listed. And the ones that have have not always done well – or have sold out.

ASW, the Cardiff steelmaker, has suffered in a sector weighed down by overcapacity and tumbling prices. HTV, the independent television company so important to the multimedia industry in Wales, was bought by United News & Media.

Mr Brooks says businesses in Wales have not had enough good examples to follow – the main pattern has been for businesses to be built up and then sold off.

While he is proud of his Welsh roots, he is clearly disappointed at what he regards as a lack of confidence among fellow business people and a fear of taking on the wider world of business.

"My frustration with Wales is that we don't think big enough," he says. "We lack confidence as a nation in business terms. There are just as many good businessmen in Wales as there are in other parts of the UK – but people are selling out."

Wales, he says has an employee culture and lacks entrepreneurial spirit. "When people have formed businesses which have become successful, then are offered millions of pounds to sell, they take the money and run. What Wales needs is those people to go to the next stage."

Mr Brooks hopes that TBI is showing there is another path for Welsh companies to tread. "There are good opportunities out there.


Mover and shaker: Mr Brooks wants to reform employee culture

What Wales needs to take it forward is a greater sense of collective confidence and ambition – the confidence to tap the capital markets.

"A company like TBI is one example of a Welsh corporate that understands the City, has gone to the City."

A further hope for building confidence is devolution. While he was against the government's plans – he does not believe Wales should have devolved government while it is so economically dependent on the rest of the UK – Mr Brooks hopes that a greater sense of national identity could emerge from the process now it has been agreed.

The supports are all there. Mr Brooks says Wales has strength and depth in professional services – with good bankers, lawyers and accountants.

TBI has both a London and a Cardiff base, with its information technology and accountancy functions based in the Welsh capital. Mr Brooks still has his home in Cardiff – though he only spends on average four or five working days a month in the city, with the rest divided equally around the other areas of the business.

His family and friends are in Wales – and he is particularly proud of one of TBI's latest property developments, the five-star Hilton Hotel due to be completed in the civic centre area of Cardiff this summer. It will be only Wales's second five star hotel, joining the one built by Rocco Forte in Cardiff Bay.

An accountant by training, Mr Brooks says he took some persuading to give up his "job for life" – being an equity partner with Price Waterhouse in Cardiff – to move to head TBI, a business set up by two of his clients.

But he has never looked back, and enjoys the fact that his job takes him out of Wales and allows him to thrive in the world of international business. "I don't miss Wales – the Welsh are very good at building people up and then trying to knock them down a bit."

Susanna Voyle

CARDIFF BAY by Juliette Jowit

Waterfront reborn

As construction of the bay's barrage approaches completion, investment keeps pouring into the area and the Welsh capital adds a finishing touch to its bid to be a world-class maritime city

There were many who said it could not be done. But by the summer Cardiff Bay Barrage is due to be finished and the centrepiece of Europe's largest regeneration project will be in place.

It has taken five years and £200m to build the 1.1km barrage across the estuary at the mouth of the rivers Taff and Ely, bigger than any dam in Europe except the massive flood defences in the Netherlands.

Behind it a 200-hectare freshwater lake will be created – a visually stunning centrepiece for boating, windsurfing, canoeing and cruisers.

Independent economic studies show it could be worth many millions more in private sector investment and job creation in the 1,100-hectare bay regeneration area.

To build this massive structure, stretching from Cardiff docks in the east to Penarth in the west, contractors Balfour Beatty and Costain have used 120,000 cubic metres of concrete, 3m tonnes of sand and 1m tonnes of rock.

Constructing the barrage in an area with some of the highest tidal ranges in Europe – 14.5m, or 45ft – involved building a false "coffer" dam to create a dry working area.

To keep costs down, many materials for the final structure were used for the intermediate one. The bill was an extra £6m, but that was still the most efficient option, says David Crompton, director of engineering for Cardiff Bay Development Corporation, which is in charge of the whole £2.4bn regeneration project.

Building costs total £110m, but the total project rises to £196m including water treatment works and other expenses incurred in creating a lake the size of 400 football pitches.

Construction is about nine months behind schedule, but the corporation is confident it will be ready by June of this year.

A further delay in filling the lake with freshwater is expected because of problems with dredging work, but the whole project is expected to be finished by the end of the year.

The corporation is not worried about the relatively short delay and has promised the scheme, already £5m over budget, will not incur any more costs.

In the long term the postponement makes little difference to the importance of the freshwater boating lake, which is a valuable selling point to businesses, housebuilders, leisure and tourist attractions and retailers.

In terms of image, the water area, which has a 12km foreshore, is an important focus of the corporation's mission statement: "To put Cardiff on the international map as a superlative maritime city which will stand comparison with any such city in the world."

CARDIFF BAY

Total private sector investment in the bay to date is £850m, with 11,000 jobs created.

Larger waterfront schemes include Sir Rocco Forte's £17m St David's Hotel, Wales's only five star establishment, the £25m Mermaid Quay shopping and leisure centre, the £30m Atlantic Wharf leisure village and the £15m NCM Credit Insurance European headquarters office.

Also planned are a 2,000-seat Millennium Centre arts venue, and a £17m National Assembly building.

Harry Ramsden has opened what has proved to be its most successful fish and chip shop in Britain, and tourist attractions including the Techniquest science centre are already drawing 1.5m visitors a year.

"Much of the investment is at or near the waterfront, where it is directly influenced by the creation of the barrage and the new freshwater lake," says the corporation.

"Arguably all bay investment is influenced by the barrage as the basic catalyst of regeneration."

For the future there are many more developments under way and being discussed.

Of 6,000 planned new homes 2,300 have been built, and 114,000 sq m of the 370,000 sq m of planned new office space is finished. Work continues on the remainder.

Eventually the corporation expects to have created 30,000 permanent jobs through investment of £2.4bn, with 80 per cent of it from the private sector.

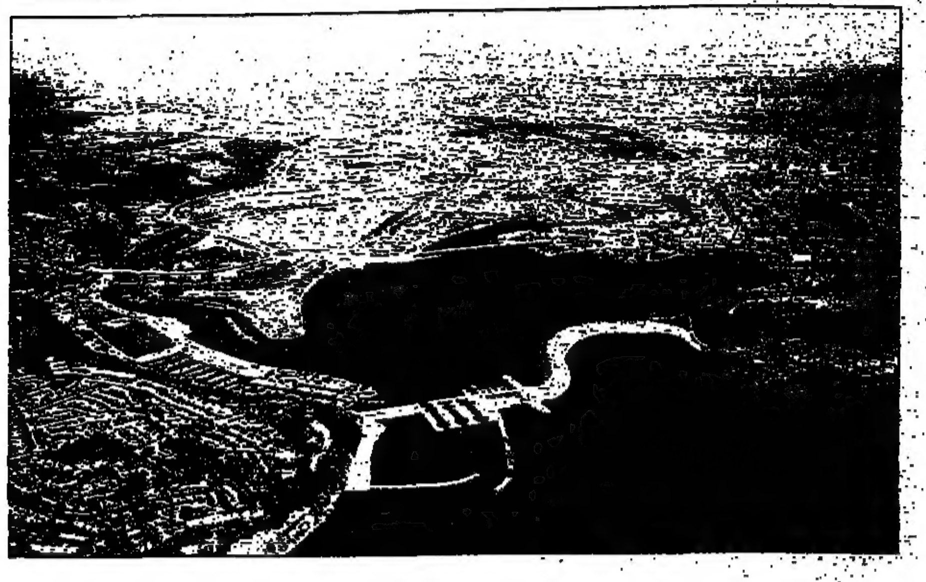
At the planning stage when the corporation was set up 10 years ago, consultants at KPMG were asked to research the value of the barrage option over a similar development without the dam and water feature.

They concluded it would bring in nearly twice as much in private sector investment, would create an extra 7,700 person years in construction, taking the total to 16,500, and support an extra 10,500 permanent direct jobs.

Several companies have already cited the lake as the clinching factor in their decision to invest in the bay, according to Cardiff Bay Development Corporation.

"As well as creating a huge urban lake for recreation, it is the means of regenerating the Welsh capital's waterfront and has an economic spin-off for the whole of south-east Wales," says Michael Boyce, chief executive.

Eclectic revival: the bay has a mix of historical and new, from the NCM-insurance group HQ, left, to the Norwegian church and futuristic visitor centre, above. Below, an artist's impression of the barrage



MULTIMEDIA by Susanna Voyle

Coal Exchange heralds new

Part of Cardiff Bay's Victorian heritage is being recycled to accommodate a multimedia incubator, and similar

The symbolism is all too powerful. The Coal Exchange, a long-disused building in the heart of Cardiff Bay, is due to be converted into a media centre.

While the Docks area which supported the old industrial order in south Wales is being turned into a leisure area, a new sector of the business community is getting increasing attention.

Multimedia, the catch-all term that covers any uses of media from film and television production to web-site design and internet businesses, is seen as an important area in Wales – and one which, with the promise of advanced communications, could hold out the promise of regeneration in the hard-hit rural areas as well as the larger conurbations.

According to estimates from the Welsh Development Agency, the regional investment organisation, the multimedia industry employs 3,000 people, or their full-time equivalents, and has an annual turnover of £350m.

Of that £350m, the WDA estimates that two-thirds is generated in the south Wales industrial belt and the remaining third in west, mid and north Wales, the predominantly rural economies.

The main area of activity is Cardiff, the capital city which is home to the main broadcasters – BBC Wales, HTV, the independent television company, and S4C, the Welsh language Channel 4.

The redevelopment of the Cardiff Bay area – which will house the new Welsh Assembly building – has been one magnet. Currently under construction is Celtic Gateway, a £45m multimedia business park being developed by Ashquay Group, the property company, and Christiani & Neilsen, the building group.

The developers claim the park, being built on the site of an old municipal rubbish tip, will be the first in the UK to have an on-site international satellite earth station – providing direct video-linking facilities and allowing the development of intranets.

But non-urban areas are benefiting as well. Another main cluster of businesses is in the relatively rural Caernarfon area in north Wales. And in west Wales, a region hit hard by the retreat of oil companies and the depressed outlook for the farming community, an information technology park is being established at Pembroke Dock.

One of the main challenges for the industry is

Fuel reprocessing: the Coal Exchange in the heart of the Cardiff Bay area is changing its role

PROFILE
ST DAVID'S HOTEL & SPA

Say it with tulips and jellybeans

Some symbols of good service and self-indulgence are priceless, says **Juliette Jowit**

It was tempting to write that it's worth staying at Wales's first AA/RAC five star hotel just for the sensational power shower. But on reflection you could fit your own for the cost of the £500 suite.

There are, however, plenty of other reasons to visit St David's Hotel and Spa in Cardiff, and much cheaper rooms available too.

Driving off the M4 and heading for Cardiff Bay, there are no road signs yet for the latest addition to the capital's skyline, but once in the vicinity the stunning concrete and glass structure towers conveniently above its surroundings.

There is something incongruous about finding the glittering bulk through half-lit backstreets and old dockside brick buildings that were once home to prostitutes and crime barons.

Across the harbour is a hotchpotch of futuristic office blocks and restaurants, a steel tube housing an exhibition, the Victorian port authority headquarters, a Norwegian church and other oddities that sit amid the £2.4bn waterside regeneration scheme – Europe's largest.

Outside the hotel the scene is just as unlikely: at the other side of the car park drunken rugby fans lurch out of the Sports Cafe, while in front of the hotel gentlemanly porters in top hats and tails usher guests through the great glass doors with a flourish.

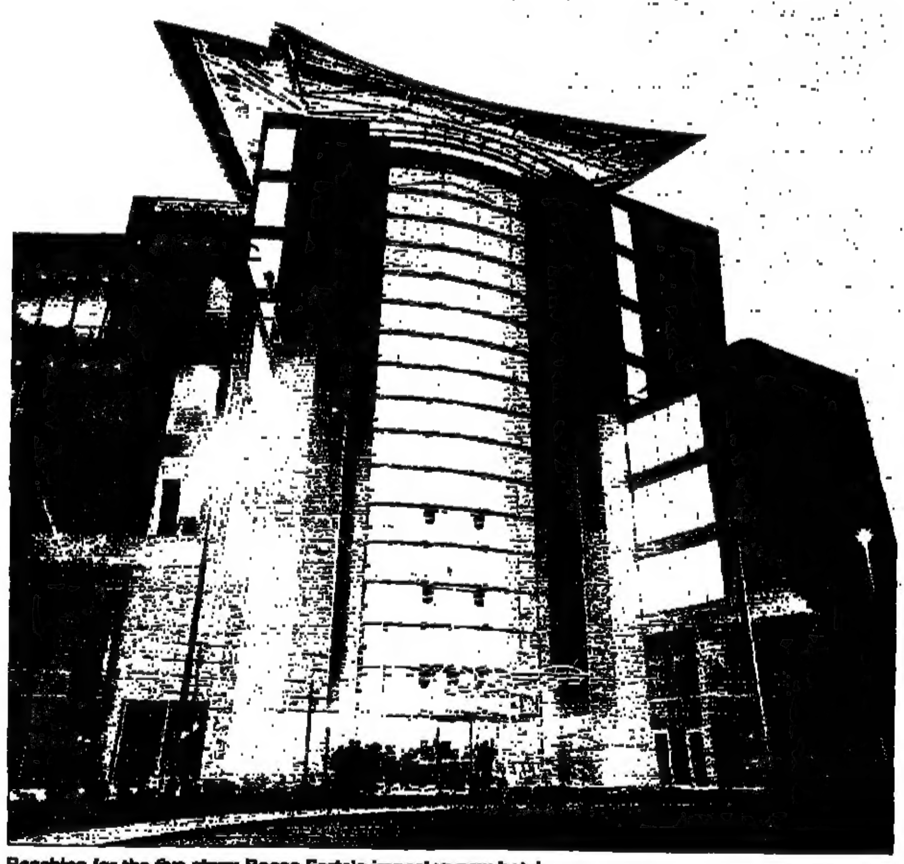
Inside, a gigantic 35m high white atrium swallows up space and people – a wire bench is the only decor. A totally unscientific straw poll suggests visitors love it or hate it.

St David's is the first purpose-built hotel in the new RF Hotels chain owned by Sir Rocco Forte, formerly of Forte group fame. The others are the Balmoral in Edinburgh and a smattering in Europe: in Florence, Rome and St Petersburg.

The 136 bedrooms, the conference rooms, business centre and spa aim to capture a booming hotel trade in Cardiff that is set to continue growing, partly on the back of the Rugby World Cup later this year and the opening of the new Welsh National Assembly building that is under construction across the bay.

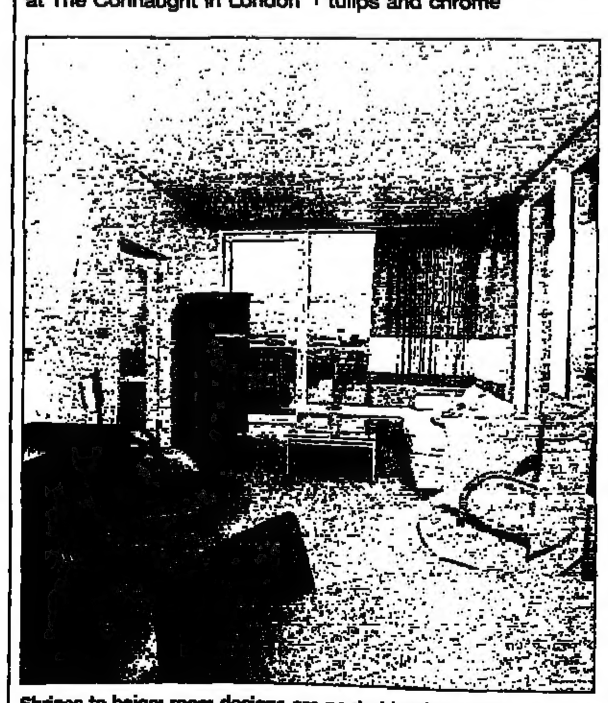
Designed by Patrick Davies of Hanscomb Davies fame, it has been fitted out with the help of Sir Rocco's sister Olga Polizzi, who has turned the bedrooms into beige shrines to Habitat.

Downstairs the Tides Bar and Restaurant – headed by chef Martin Green, formerly at The Connaught in London – resembles an airport lounge.



Reaching for the five stars: Rocco Forte's imposing new hotel

The decor aside, though, it is hard to find fault with much else. Every possible need is catered for: in the rooms are the usual comforts – including potted tulips and chrome toothpaste mugs that would tempt even the most honest guest.



Shrines to beige: room designs are neutral but luxurious

The hotel only opened in January and already they are popular souvenirs, admits Keith Gough, customer relations manager.

There are jellybeans and champagne in the mini-bar, secretarial or interpreter services available, and limousines or a ready-made jogging route available if you want to go out.

Guests can eat fillet of brill with a crab crust, cappuccino of sweetbreads and langoustine with gibbons and chives, panfried duck foie gras with savoury welshcake and caramelised endive, or venison with port and blackcurrant in the restaurant or their rooms, 24 hours a day.

All the staff recommend the food – perhaps "they would say that", but even the taxi driver has heard it is good.

To work it off, guests and invited members can indulge themselves in the spa, which includes the UK's first salt-water hydrotherapy pool and treatments such as mud-wraps, massage and jet therapy, all with organic ingredients.

Surrounding all this luxury are spectacular floor-to-ceiling glass windows with breathtaking views across the bay and the city.

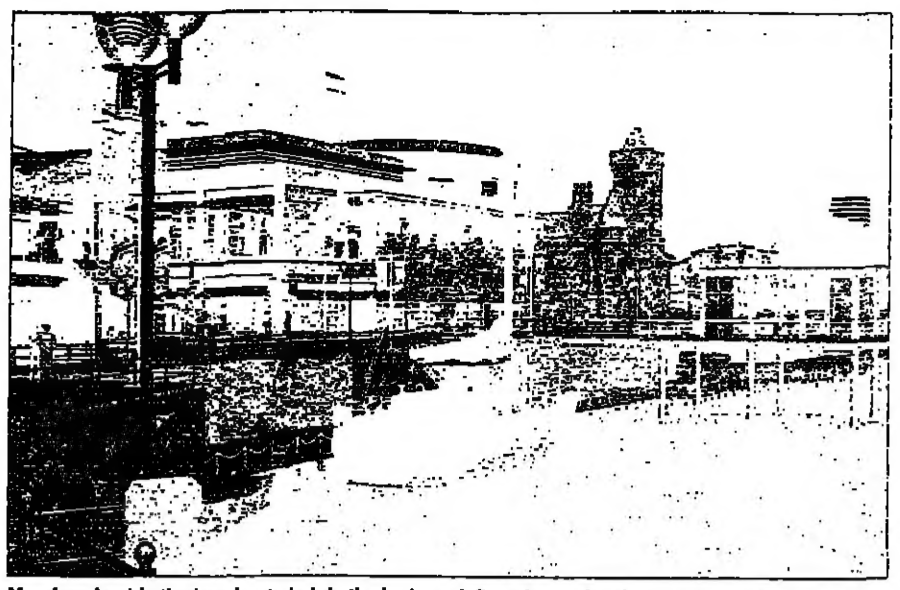
But the real stars of this hotel are the staff.

Milk is delivered by an observant lady who notices the tea cups have run out and offers to bring more. Mineral water arrives, as ordered, with ice and lemon in separate dishes. Lunch is served in the room on the dot of 2.40pm, as requested.

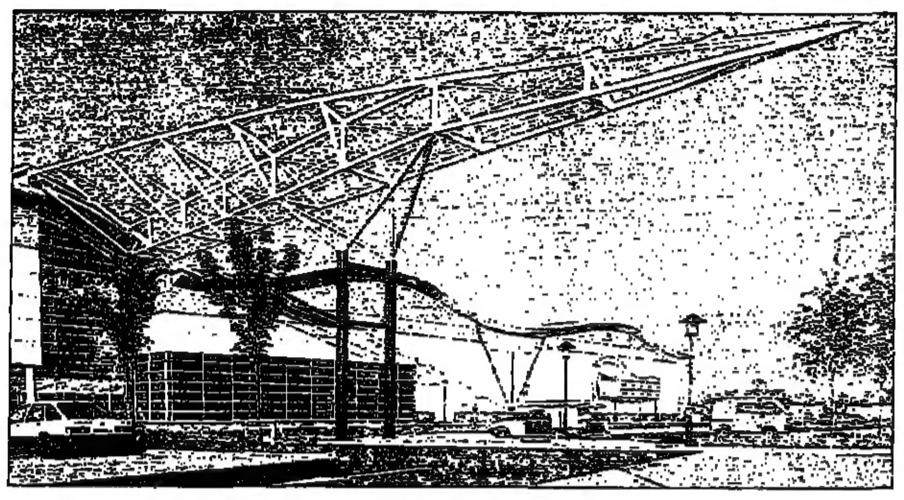
Receptionists go out of their way to find what you need. The porters chat and joke with guests, while still making them feel almost like VIPs. And the barman searches out exactly the right bottle of wine at 2am.

So, if for nothing else, it is perhaps worth a visit to rediscover the lost art of superb service – which is something you can't put a price on.

• Juliette Jowit was a guest of the St David's Hotel and Spa. Rooms start from £110 single and £120 double for bed and breakfast until the end of April. Weekend leisure breaks, spa packages and conference deals are available. For information and bookings, telephone 01222 454045.



Messing about in the bay: boats bob in the harbour, left, and an artist gives an illustration of what the Mermaid Quay retail development will look like, above. Below, the Atlantic Wharf leisure village



definition for remote Welsh areas

ventures are springing up across the principality, as entrepreneurs spot the potential of distance communications technology

whether it can raise its eyes above Offa's Dyke and see the opportunities outside Wales. It is estimated that almost 60 per cent of multimedia turnover is trade within Wales – much of it capitalising on demand for Welsh language or bilingual business.

Patrick Sullivan, director of the WDA's media technology group, says the industry needs to focus on growth from outside Wales. He is confident it can be done – and says the dependence on the Welsh language, far from being a weakness, could be a strength.

The WDA wants the industry to focus more on business with EU partners. It has already developed a series of links with Ireland and says continental Europe is the next stop.

"Over the coming 12 months to four years there will be tremendous opportunities as digital terrestrial television beds down," he says. "There is a chance for the industry to think European. The majority of the industry works bilingually and that could be a tremendous advantage – they are people used to working in more than one language."

The other problem is retaining the brightest talent in Wales. It is the WDA that is behind the plans for the Coal Exchange. It hopes the building can be converted into business "incubators" with the support mechanism of lawyers and accountants on tap for new business start-ups.

Mr Sullivan hopes it will attract new graduates and foster their talent in Wales along entrepreneurial lines.

So what of the promise of rural opportunities for small businesses? If one striking example can be repeated, the potential is tremendous.

Phil Rowe set up his business in Pembroke, almost as far west as you can travel in Wales, in April last year. He worked in the leisure industry and his business partner was a graphic designer.

Together they thought they spotted a good business opportunity – the development of digital video disc (DVD) technology, the new home cinema format. From a standing start they have established themselves as one of the main DVD distributors, supplying high street electronics chain Dixons and helping Virgin Atlantic Airlines with their research on the format.

Mr Rowe says he expects turnover of £500,000 this year. And the business is currently doubling month on month – all from a small market town.

"Working down here just is not a disadvantage," he says. "The majority of our business is electronic through e-mail."

The downside, he suspects, is that they had to work much harder to start with to get their name across – and they travel to London three or four times a month to meet suppliers flying in from the US.

"We have to be very, very pro-active. People don't knock on your door, although now we are getting better known that is starting to change. We work very hard – then we go to the beach."

PROFILE
HARRY RAMSDEN'S

A plaice by the sea

There are plans to use success in Cardiff Bay as a platform for expansion in Wales

Harry Ramsden has done for British fish and chips what McDonald's has done for American fast food. The group, begun in Guiseley, West Yorkshire, in 1928, now boasts a string of outlets worldwide, from Hong Kong to Dubai to Dublin.

It is the Melbourne restaurant, in Australia, that now holds the world record for the number of portions of fish and chips sold in one day (12,105).

But Cardiff Bay's Harry Ramsden's, opened three years ago, is nevertheless vaunted as the most popular of the chain's British outlets.

The restaurant has room for 300 covers and serves up to 10,000 meals a week to a combination of sit-down and take-away customers.

Despite a recent lull in trading – "at the moment, we're an island in the middle of a building site," says director George Osztreicher – Harry Ramden's, Cardiff Bay, has high hopes for the future. Once construction work in the locality is completed, Mr Osztreicher is confident business should boom again. "We're already getting custom from the new cinema and bowling complex," he says.

But he is concerned, too, that Cardiff Bay may not realise its full potential as quickly as it should. When the Cardiff Bay Development Corporation is wound up next year, there will be no obvious body to inherit its role. And abortive plans to link the bay eastwards to the M4 motorway show no signs of being rekindled. Without that kind of basic infrastructure, says Mr Osztreicher, getting the expected volume of people in and out of the area will become a logistical nightmare.

Given its location amid this kind of modern leisure complex, there is a temptation to assume Harry Ramsden's would have tried to alter its traditional Yorkshire image, either to appeal to a young clientele, or to milk its Welsh tourist trail location. But Mr Osztreicher is adamant: "We're not a themed kind of place. We're a good silver service fish and chip restaurant."

There is little concession, either, to those hoping for a Welsh flavour on the menu. The Harry Ramsden chain generally allows for three variations from the core menu to accommodate local tastes, but the Cardiff outlet has yet to dish up laver bread alongside its prime haddock fillet.

In other ways, though, the restaurant does make an effort to fit in. It has a Welsh language menu. It hosts regular opera nights, with a cast drawn from the Welsh National Opera. And it pulls in the older customers with "singalong evenings".

Encouraged by its profitable start-up in Cardiff, the franchise that operates the restaurant under the Harry Ramsden name, which cut its teeth running Wimpy and Burger King outlets, is about to open another site in Swansea. It will then embark on a new Harry Ramsden formula adjacent to Aberavon beach, in Port Talbot, with the kind of "quick service restaurant" that has been tried out in Lisburn, Northern Ireland. A further 20 such outlets are planned, at locations which are currently secret, throughout south Wales.

Patrick Jenkins

PROFILE
PEMBROKESHIRE

New Zealand of the north: the idyllic appeal of resorts such as Tenby is being spiced up by activty holiday promoters George Herringshaw

Buckets and spadefuls of action

As millions of sun-seekers gear up for their annual pilgrimage overseas, a traditional British holiday destination is fighting to win back at least some of them.

Aware that its glorious beaches and stunning scenery are not enough in themselves to compete with the cheap foreign packages, Pembrokeshire in West Wales is looking increasingly towards the activity sector to woo visitors.

Perched on the very edge of south-west Wales, and with the added advantage of a mild climate, the county has everything the outdoors type could want.

Surrounded on three sides by water and bisected by the 200 square miles of the Milford Haven tidal waterway, it can offer a variety of watersports from sailing to surfing.

Its central region around the Preseli mountains and its spectacular coastline appeal to hill walkers, climbers and horse riders – the highlight is the splendour of the county's 186-mile coastal path, part of the UK's only coastal National Park.

The traditional bucket and spade holiday based around resorts such as Tenby and Saundersfoot shows no sign of dying out, but it is not enough for an economy which as a result of recent defence closures and cuts in the oil industry is becoming increasingly dependent on tourism to survive.

There is a conscious shift to branch out into the short break and activity market.

"The activity-driven market is expanding six per cent faster than any other sector of tourism," says Philip Evans of Pembrokeshire-based Activity Wales.

"On holidays that are not driven by the weather, people want something to do, no matter if they're here for two weeks or a short weekend break."

As a result, he says, Pembrokeshire and Wales as a whole should play to its strengths and develop itself as an activity playground not just for UK markets but also for the increasing numbers of overseas visitors in search of green tourism.

"Tourists see Pembrokeshire as a green destination because of the national park. It's a huge marketing tool," says Mr Evans.

The move towards green pursuits in the county, from bird-watching to canoeing, has been increasing of late, with a mushrooming of activity providers in the last decade.

While there was much tourism doom and gloom last year, watersports operators reported booming business.

Their sunshine story was in sharp contrast to the rest of the industry, which fell victim to the strong pound and poor weather.

Peter Bounds of Dale-based West Wales Windsurfing, which runs dinghy sailing and surfing courses, says the Welsh Tourist Board came in for a lot of criticism last year for targeting a certain class of tourism. But he defends the strategy.

"They're professional people with a bit of money who want a break and something totally different from their day-to-day lives," he says. "And when you're wearing a wet suit, you can enjoy the water, whatever the weather."

Pembrokeshire county council now runs its own sailing centres at Fishguard and Pembroke and is due to open a large new facility this year. Together with the other leading watersports promoters, it launched a joint marketing campaign at this year's Boat Show, called Pembrokeshire Afloat, to highlight the county's marine attractions.

The new operators have the support of authorities such as Pembrokeshire County Council, Pembrokeshire Coast National Park and the Milford Haven Port Authority, which recently published a leisure guide for the waterway explaining the zoning system for visitors – the port has incorporated a lively marina into the working industrial harbour, but is wary to keep pleasure craft well clear of the supertankers on their way to the oil refineries.

The local authority and national park have also come up with a voluntary code of conduct for jet skiers to lessen their impact on a sensitive environment.

Andy Middleton of the TYF No Limits Adventure Centre in St David's, which offers courses in rock-climbing, surfing, kayaking and coasteering (a unique form of orienteering along the coastline), says there is huge scope for more activity holidays in the county.

Last year the company opened up a satellite centre in Tenby.

"Pembrokeshire could be developed as another New Zealand for sports holidays," he says.

Ceri Jones

Ceri Jones writes on west Wales for the Western Mail

COOL CYMRU by Andrew Davis

National pride spills from politics into arts

The devolution process has progressed in parallel with a growing recognition of the vibrancy of the Welsh entertainment scene – from opera to the trendiest pop music

Tanked up: Super Furry Animals are among bands aboard the Welsh pop bandwagon Creation Records

"Every day when I wake up I thank the Lord I'm Welsh."

A few years ago Cerys Matthews, singer with Catatonia, would have been showered with cynical jibes from the London music press for expecting to succeed with lyrics like that.

That was then. Now Catatonia is unashamedly Welsh and undeniably big – their last album went to number one and only a fool would bet against the next one doing the same.

Welsh bands are in the middle of an unprecedented purple patch and the most commercially successful of them – Manic Street Preachers, Catatonia, Stereophonics and Super Furry Animals – have cracked the biggest secret in pop music: how to sell a lot of records and retain your credibility with the fans and the critics.

The Welsh pop bandwagon really started rolling a couple of years ago – around the same time that a New Labour government with a zeal to reinvent everything was turning its attention to devolution for Wales and Scotland. For the government at least, music and politics quickly became partners in a marriage of political convenience.

So when in early 1997 Manic Street Preachers – until then a band that made little mention of their roots – won the Brit Award for best album (*Everything Must Go*) and performed at the awards ceremony with their speaker cabinets draped in Welsh flags, the image-makers' moment had come. London music journalists were starting to rave about the new Welsh scene, and the inevitable result was "Cool Cymru".

Not surprisingly this irredeemably naff offshoot of Cool Britannia was disowned by ministers and their spokesmen almost as soon as it was coined. Politicians have long tried to harness pop music to their cause and have almost always managed to emerge looking like buffoons. For a while it looked like happening again, as political diarists talked about New Labour plans to rebrand Wales and replace the dragon with something more modern.

But in spite of the encouragement of with-it ministers such as Peter Hain at the Welsh Office, and former Welsh secretary Ron Davies, the bands and their "vibrant youth culture" have gone from strength to strength. And, inspired by their example, the political project of forging a young, forward-looking and above all self-confident image for Wales remains on track.

This February, two years after their first triumph at the Brit awards, Manic Street Preachers won a second best album award for a record that uses an Aneurin Bevan quotation as its title: *This Is My Truth, Tell Me Yours*. The intervening period has seen Wales's growing self-confidence expressing itself well beyond the trendy confines of pop music.

After the debacle of seeing architect Zaha Hadid's futuristic plans for the Cardiff Opera House thrown out in late 1995 by a combination of local opposition and disapproval from within the Millennium Commission, the project of providing a new home for the Welsh National Opera looked in trouble. But an alternative plan is well under way in the shape of the Wales Millennium Centre, which has started to win grudging praise from the architecture writers who lauded the controversial Hadid plans.

The Welsh National Opera boasts international stars such as Bryn Terfel

In early January, the project, under Sir Alan Cox, its chairman, scored a coup. Not only was it going to be home to eight or so companies including the WNO, which has attracted outstanding critical acclaim in recent years and boasts international stars such as Bryn Terfel, but it would have a nationally recognised arts administrator as its boss. Kathryn McDowell, who had spent five years as director of music for the Arts Council of England and had won considerable praise, announced she was quitting London to become chief executive of the Wales Millennium Centre. Norman Lebrecht in the Daily Telegraph called it "a rare case of the ship deserting the sinking rats".

If events such as the Wales Millennium Centre plans and Manic Street Preachers' triumphs at the Brits are the most obvious symbols of Wales's cultural health, their political equivalent came with the Yes camp's narrow victory in last year's devolution vote.

For Robin Gwyn, chief press officer of the Wales Tourist Board, this was a defining moment. "If that vote had gone the other way it would have been the end of any substantive Welsh identity. We have still got a lot of nation-building to do, but I think we have turned the corner," he says.

It is impossible to be precise about the role of music in helping that political change come about, but it should not be underestimated. Within Wales, young people are speaking Welsh in growing numbers – in 1971 17 per cent of 10-14-year-olds spoke Welsh, 20 years later more than a quarter did. And the fact that nationally acclaimed bands like Super Furry Animals and Gorky's Zygotic Mynci routinely record in Welsh can only encourage this trend.

But further afield, music is playing a huge role as well – the image of Wales that is now being thrust in front of young people in Britain no longer consists solely of leeks and coal mines. Instead pop stars like Cerys Matthews and Nicky Wire of the Manics dominate.

And their influence spreads outside Britain. Peter Hain recounts that on holiday in Spain last year he was asked by some local people where he was from. His reply elicited a string of Welsh band names by way of recognition.

PROFILE
THE WALNUT TREE

Celtic casserole with Italian seasoning

Juliette Jowit is captivated by a small restaurant with a big reputation for fabulous fish dishes, just-right desserts and owners who star on TV and write recipe books

The woman giving directions over the phone sounded slightly surly, but the Walnut Tree was not unfriendly, just unpretentious. Amazingly so, given its reputation – it draws regulars from as far afield as London and the US to the restaurant in a tiny village on the English-Welsh border.

Franco Taruschino, who owns the restaurant and bistro with his wife Ann, describes the cooking as "Italian with a little bit of Welshness". All the ingredients are local, except the olive oil and parmesan, of course.

The choice of starters was not quite as tempting as the rest of the menu, but what we had was almost faultless.

For starters I chose the most perfectly cooked and tasty asparagus with purple sprouting - which looked closely related to broccoli - and (slightly bland) beetroot, drizzled with a plate-lickingly good oil dressing.

My friend had marinated red mullet with new potatoes, for which the word "wonderful" apparently sufficed.

The main course menu was far harder to select from. When we visited it was a fabulous array of fish dishes that caused the dilemma, but Franco's specialities are varied.

One favourite is vincisgrassi, an 18th century pasta bake with ham and porcini in a rich creamy sauce, a sort of lasagne invented before tomatoes were around, he explains.

Another is Lady Llanover's Salt Duck – which is what it says – originally devised by the 19th century Lady Llanover – wife of Baron Llanover who built Big Ben in London. She was most famous for closing the pubs in the nearby village of the same name.

The lentils were just sweetly spicy enough to distract without overpowering the fish

We eventually settled for red mullet with lentils and pesto, and a brodetto - helpfully described as a fish casserole.

The mullet was deliciously oaky and surrendered in my mouth, and the lentils were just sweetly spicy enough to distract, without overpowering the fish.

The brodetto arrived as a steaming mass of hake, skate, cod, and langoustines in a thick tomato broth with chunks of baguette croutons. The shellfish had the slightly gritty texture of a farm, and the sauce was almost too tomatoey, but the fish were again timed to the minute and the combination worked fabulously.

Ann and Franco met in the 1960s in Rugby, where he worked as a waiter because it paid 50p a week more than a chef, and she was a teacher.

They bought the pub in 1969 as a way of being able to spend more time together, since when they have built a national reputation, which has given them a series on BBC Wales, and published several books – another comes out in the autumn dedicated to pasta bakes.

A previous book is devoted to their homemade icecream, so I put the honey and brandy flavour to the test. The result was a sumptuous bowl of what tasted like almost pure honey - far too sweet to finish but worth every mouthful at the time.

My friend chose creme brulée, an equally rich and creamy indulgence topped with a wafer-thin burnt crust.

The whole meal – which started with a welcoming appetiser of baby fishcakes and ended with the hot rich quality of coffee you expect but don't normally get from Italian restaurants – came to £79, including a half-bottle of 1995 Bourgogne Aligote de Bouzeron.

The friendliness of the staff was worth far more than 10 per cent.

Afterwards Franco – who runs a kitchen of seven chefs including a Danish architect and a dentist from Bristol – showed me his plaque for winning the Egon Ronay restaurant of the year in 1987.

There is no other formal recognition of this gem of a restaurant, but he shrugs that off with the sort of relaxed down-to-earth attitude that pervades the whole atmosphere.

The Walnut Tree, Llandewi Skirrid, Abergavenny, Gwent, is open Tuesday to Saturday, from 12-3pm in the bistro, and from 7-10pm in the bistro and dinning room. Starters are from £4.95 and maincourses from £7.50. Credit cards not accepted. Telephone 01873 852797.